

# THE NATIONAL SECURITY IMPLICATIONS OF THE HUMAN CAPITAL CRISIS

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## JOINT HEARING

BEFORE THE

OVERSIGHT OF GOVERNMENT MANAGEMENT,  
RESTRUCTURING, AND THE DISTRICT OF COLUMBIA  
SUBCOMMITTEE

OF THE

COMMITTEE ON  
GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE

AND THE

SUBCOMMITTEE ON CIVIL SERVICE AND AGENCY  
ORGANIZATION

OF THE

COMMITTEE ON GOVERNMENT REFORM  
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THURSDAY, MARCH 29, 2001

U.S. SENATE, OVERSIGHT OF GOVERNMENT MANAGEMENT, RESTRUCTURING, AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE, COMMITTEE ON GOVERNMENTAL AFFAIRS, JOINT WITH THE HOUSE OF REPRESENTATIVES, CIVIL SERVICE AND AGENCY ORGANIZATION SUBCOMMITTEE, COMMITTEE ON GOVERNMENT REFORM,

*Washington, DC.*

The Subcommittees met, pursuant to notice, at 10:12 a.m., in room SD-342, Dirksen Senate Office Building, Hon. George V. Voinovich, Chairman of the Senate Subcommittee, and Hon. Joseph Scarborough, Chairman of the House Subcommittee, presiding.

Present: Senators Voinovich, Durbin, Akaka, and Carper; Representatives Scarborough, Morella, Davis, Cummings, and Norton.

## OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. The hearing will come to order. I would like to explain that the Members of the House and Senate will be going in and out during this hearing because of votes. Hopefully, we will have a few more Senators here after this vote is completed.

We thank you all for coming. Today, the Senate Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia and the House Subcommittee on Civil Service and Agency Organization are meeting to examine how the human capital crisis in the Federal Government is affecting, and indeed endangering, the national security establishment and the ability of the Federal Government to defend our Nation and its interests around the world. This is especially true with the civilian workforce of the Department of Defense. Today's hearing is the Senate Subcommittee's eighth on the human capital crisis.

The fact that Chairman Scarborough and I are co-chairing this hearing underscores the seriousness of this problem confronting our country, and Chairman Scarborough, I welcome you and the Members of your Subcommittee to the Senate. I know you share my belief that the human capital challenges of the Federal Government require our attention and I appreciate the opportunity for this bicameral and bipartisan discussion.

Last year, Chairman Scarborough and I worked on an amendment to the Defense Authorization Act that provided critically needed flexibility to the Department of Defense to restructure its civilian workforce. Specifically, the amendment gave the Department of Defense expanded authority to offer voluntary separation

incentive payments and voluntary early retirements to a total of 9,000 new employees through fiscal year 2003 for the purpose of reducing high-grade supervisory positions and correcting skills imbalances. The use of these authorities does not require the elimination of these positions, but rather allows the Defense Department to hire 9,000 employees with the right skills for the future. This has given the Department of Defense extra flexibility to manage its civilian workforce and realign its human capital.

Chairman Scarborough, I look forward to working with you this year on additional measures to address the challenges confronting not only defense civilians but the entire Federal workforce. The country is grateful for your leadership on this issue.

As some of you may know, Defense Secretary Rumsfeld is currently conducting a comprehensive review of the Department of Defense strategy and force structure. When his review is completed, the debate in Congress will most likely revolve around the wisdom of deploying a national missile defense system, the militarization of space, and expensive weapons systems, such as aircraft carriers and fighter jets.

However, a most vital factor in U.S. national security cannot be overlooked: Human capital, the men and women of the Federal workforce. It does not make headlines, but the Federal workforce is in crisis. The average Federal employee is 47 years old. During the Presidential campaign, both candidates promised to reduce the number of Federal employees. It is going to be an easy promise to keep. By 2005, over half of the 1.8 million non-postal civil employees will be eligible for early retirement or regular retirement. An even greater percentage of the Senior Executive Service, the government's core managers, will be eligible to leave.

The amount of knowledge and experience that is literally going to walk out the door by the end of the decade is unquantifiable. Perhaps even more concerning, government service is no longer a career path of choice for young Americans for a variety of reasons. There is no governmentwide plan to reshape our workforce so that it can respond to the problems of today and the challenges of tomorrow.

To some, the departure of so many Federal employees is welcome news. But it could bring paralysis to our government, and it has ominous implications for our national security. Current problems with the defense civilian workforce illustrate the point. Despite their critical role in supporting the Armed Forces, defense civilian employees are often overlooked. Throughout the 1990's, the workforce was downsized by 400,000 positions, largely through attrition and retirements.

Unfortunately, the process paid little heed to reshaping the workforce to meet changing requirements. As a result, the defense workforce faces serious skills imbalances in areas such as linguistics, acquisition, research and development. For example, Wright-Patterson Air Force Base in Dayton, Ohio, conducts vital scientific research for the Air Force, but workforce reductions threaten its ability to continue to develop cutting-edge technologies. Last year, Senator Cochran's Governmental Affairs Subcommittee examined the shortage of skilled linguists in the Foreign Service, law enforcement, and international trade agencies. And the Defense Depart-



ment already faces a shortage of acquisition personnel, which will be exacerbated by anticipated retirements over the next few years. This could severely hinder the ability of the Department to purchase the equipment and supplies needed for our Armed Forces.

As national defense is the first responsibility of the Federal Government, it is my hope that focusing on the human capital challenges in the national security establishment will highlight the need for prompt and comprehensive action, because the requirement for a well-balanced, robust civilian national security workforce is indisputable. If we fail to respond to these formidable human capital challenges in our national security establishment in a thoughtful and deliberate manner, then our best strategies and billion-dollar weapons systems will afford us little protection in an uncertain future.

We have a distinguished panel of witnesses to discuss these issues today. The Hon. James R. Schlesinger was the Secretary of Defense under Presidents Nixon and Ford and the first Secretary of Energy under President Carter. Admiral Harry D. Train, U.S. Navy, Retired, served as Supreme Allied Commander—Atlantic, Commander of the Sixth Fleet and Director of the Joint Staff during his 37-year naval career. Both of them served as Commissioners on the U.S. Commission on National Security in the 21st Century. The Commission, a bipartisan and independent group, was chartered by Secretary of Defense Cohen to provide Congress and the Executive Branch with the most comprehensive government-sponsored review of U.S. national security in more than 50 years.

I was gratified to learn that the Commission's final report, which made dozens of recommendations for restructuring and revitalizing the national security establishment, includes the chapter, "The Human Requirements for National Security." It states that, "The excellence of American public servants is the foundation upon which an effective national security strategy must rest, in large part because future success will require the mastery of advanced technology, from the economy to combat, as well as leading-edge concepts of governance." I have asked the Commissioners to focus their testimony on this chapter of the report.

Also joining us is Butch Hinton, the Managing Director of Defense Capabilities and Management at the U.S. General Accounting Office. This past January, GAO designated strategic human capital management across the Federal Government as high-risk. Comptroller General David Walker has tasked all of GAO's teams to examine human capital challenges in their specific areas. Mr. Hinton will discuss GAO's evaluation of the Departments of Defense and State.

Robert J. Lieberman is the Deputy Inspector General at the Department of Defense. Over the past 12 months, Mr. Lieberman's office has published eight reports which address personnel problems at the Department of Defense, most notably in the acquisition workforce. He will provide us an overview of the IG's findings.

We thank you all for coming, and we look forward to your insights. Now I would like to yield to my Co-Chair for this hearing, Chairman Scarborough, for his opening statement.

#### **OPENING STATEMENT OF HON. JOE SCARBOROUGH**

Mr. SCARBOROUGH. Thank you, Mr. Chairman. Good morning. I would like to thank you for your leadership in examining human capital challenges facing the Federal Government today. The prominent attention human capital issues receive today is due primarily to the work of two men, Comptroller General David Walker and Senator Voinovich. Senator, I want to commend you for bringing this important issue to the forefront, and I also want to commend you for focusing the first of our series of hearings on national security.

Like you, I agree that the Federal Government's primary responsibility is protecting this country, and defending the Nation from foreign threats is our first responsibility and it is hard to imagine another area in which the consequences of failing to meet the challenge of ensuring an appropriately sized and skilled civilian workforce would be so dire.

In my district in Northwest Florida, we have got NAS Pensacola, Egland Air Force Base, Hurlburt Field, and several other military bases. Bob Sikes, in fact, has been accused by Trent Lott of turning my district into a glorified aircraft carrier. But I have seen firsthand down there, like you have at Wright-Patterson and other bases in your State, just how dire the situation is right now. My colleagues and I are very pleased to be able to join you, Ranking Member Durbin, and the other Members of your Subcommittee in examining this important issue.

The Department of Defense has undergone a significant downsizing of the civilian workforce, and I have heard from many of my constituents in my district about the effect of civilian downsizing and what it has had on their morale. As we move forward in this process, I hope we will find solutions that reinforce our commitment to the individual employee while promoting a performance-based management and creating a civilian workforce that has the skills and the knowledge to provide critically important support for our military forces.

To achieve true reform, sustained involvement and commitment by the administration, by Congress, Federal employees themselves, and interest groups is critical. I have enjoyed working with you, Mr. Chairman, on the human capital issues in the last Congress and I look forward to working with you and your Subcommittee in this one. Thank you.

Senator VOINOVICH. Thank you. Mrs. Morella.

#### **OPENING STATEMENT OF HON. CONSTANCE A. MORELLA**

Mrs. MORELLA. Thank you. I want to thank you, Senator Voinovich, I want to thank you, Chairman Scarborough, and the Members who are here assembled for what I consider to be a very important joint hearing that we are having. It is very important that we come together and attempt to look at the human capital crisis that may beset many of our Federal agencies in the very near future.

We are specifically looking today at how human capital concerns are affecting the national security establishment, but I think that the issues that we are raising today touch on all Federal agencies. A significant number of personnel are going to be eligible to retire

in the next 5 years, and if there is nobody trained to replace them, then the crisis that we speak of today will become a catastrophe tomorrow.

Before we hear the testimony from these very distinguished gentlemen, and I applaud you asking them to come and I particularly applaud them and salute them for coming to share with us, I wanted to raise another issue, and that is are the agencies and the President and Congress, for that matter, all on the same page in regard to the human capital issue?

I know that you are going to discuss a number of issues here today in the number of personnel that may be leaving in a few years and the difficulty we are going to have to recruit and then to retain Federal workers that have the expertise. I know that you are going to be recommending some very significant ways to alleviate these problems, and I am just curious—that we will collectively have the resources to dole out the medicine that you will be prescribing.

OMB, GAO, DOD, the President, and Congress all have to work together. But I keep hearing some mixed signals. The Director of OMB has said that he will be 100 percent faithful to the President's proposal to reduce middle management jobs in agencies. I also hear that the Director of OMB wants to have a very tight relationship with the Comptroller General at GAO, and from what I have read, GAO's recommendations for civil service reform differ from the President's. I also know that it is one thing to reduce the number of personnel, but if there is no reduction in the workload, then maybe we will exacerbate the problem.

For example, while DOD reduced its workforce by about 50 percent from 1990 to 1999, workload was not proportionately reduced. In fact, the number of procurement actions increased by about 12 percent.

I just raise these concerns because I want to see civil service reform occur, but I do not want to reform simply to say good riddance to the Federal workforce that leaves and that everyone else must shoulder more of the burden. We do have a crisis on our hands. We do have also some very viable solutions, and many of which will be discussed today. I hope that we can honestly implement these solutions instead of demonizing or dismissing the very workforce that we will depend upon to ensure our national security.

Those are a few of my very sincere concerns and I look forward to this discussion. I thank you both for having this joint hearing.

Senator VOINOVICH. Thank you. Chairman Scarborough, would you like to introduce your Ranking Member?

Mr. SCARBOROUGH. I would like to recognize the Ranking Member of the Subcommittee in the House, Representative Davis.

#### **OPENING STATEMENT OF HON. DANNY K. DAVIS**

Mr. DAVIS. Thank you very much, Mr. Chairman. Let me first of all compliment and commend you, Senator, on the outstanding leadership that you have given to this issue. It is also good to be here with other Members of the Senate and the House. This is my first hearing as the Ranking Member of the House Civil Service and Agency Organization Subcommittee and I look forward to

working with you to ensure that the Federal Government has a thriving and knowledgeable Federal workforce.

As a Member who has a large Postal and Federal civilian workforce in my district, I am very much concerned about the human capital crisis facing the Federal Government. The General Accounting Office added subcommittee workforce planning to its list of major management challenges confronting government today. Agencies should factor human resources decisions in their annual planning processes. Managers must know the number of people and the skills they will need to execute missions and goals of their agencies. Such decisionmaking is critical at a time when 35 percent of the fiscal year 1998 Federal workforce will be eligible for retirement by 2006. The loss of skilled and experienced staff will require the Federal Government to recruit and train new employees, two areas that have been negatively affected by downsizing and budget cuts.

The Department of Defense is one of numerous agencies dealing with staff shortages and skill imbalances. NASA, which aggressively cut its staff in 1994, has a shortage of people with the technical skills needed to safely conduct space shuttle missions. At the Energy Department, employees lack the contract management skills to oversee large projects, such as the cleanup of radioactive and hazardous waste sites. DOD, however, is the largest employer of Federal employees, with over 700,000 civilians, 37 percent of non-postal civilian Federal employees. How DOD formulates and executes its workforce planning strategies will set an example for other Federal agencies.

The witnesses before us today will help us to better understand the human capital needs as we face this crisis, but more importantly, their testimony, hopefully, will help us move aggressively toward finding solutions.

Again, I thank you very much, Mr. Chairman, and look forward to hearing from the witnesses.

[The prepared statement of Hon. Danny K. Davis follows:]

#### PREPARED STATEMENT OF HON. DANNY K. DAVIS

Chairman Scarborough, Senator Voinovich, and Senator Durbin, I am pleased to be with you today. This is my first hearing as Ranking Member of the House Civil Service and Agency Organization Subcommittee and I look forward to working with you to ensure that the Federal Government has a thriving and knowledgeable Federal workforce.

As a Member who has a large Postal and Federal-civilian workforce in my district, I am very concerned about the human capital crisis facing the Federal Government.

The General Accounting Office added work-force planning to its list of major management challenges confronting government today. Agencies should factor human-resources decisions in their annual planning processes. Managers must know the number of people and the skills they will need to execute the missions and goals of their agencies.

Such decision-making is crucial at a time when 35 percent of the fiscal year 1998 Federal workforce will be eligible for retirement by 2006. The loss of skilled and experienced staff will require the Federal Government to recruit and train new employees—two areas that have been negatively affected by downsizing and budget cuts.

The Department of Defense is one of numerous agencies dealing with staff shortages and skill imbalances. NASA, which aggressively cut its staff in 1994, has a shortage of people with the technical skills needed to safely conduct space shuttle missions. At the Energy Department, employees lack the contract management

skills to oversee large projects, such as the clean up of radioactive and hazardous waste sites.

DOD, however, is the largest employer of Federal employees. DOD employs over 700,000 civilians—37 percent of non-postal civilian Federal employees. How DOD formulates and executes its workforce-planning strategies will set an example for other Federal agencies.

The witnesses before us today will help us better understand the human capital crisis facing DOD, but more importantly, their testimony will help us with the solution.

Thank you.

Senator VOINOVICH. We have Representative Norton and Senator Akaka with us. Would you like to make opening statements?

Representative Norton.

#### **OPENING STATEMENT OF HON. ELEANOR HOLMES NORTON**

Ms. NORTON. Senator Voinovich, I want to thank you and my own Chairman, Mr. Scarborough, for the initiative of this hearing. I regard your own work, Mr. Voinovich, as path-breaking. The document and the work you have done is nothing less than a consciousness-raising document that I hope will become a policy-making document. We have the smallest government in many decades now, so it is very timely to look at it, even if we were not considering the kind of problems we are facing today.

I am very concerned that the Federal Government has allowed itself to become terribly uncompetitive with the market sector, with the competitive sector, in a period when that sector has become increasingly more attractive. In past generations, people came into the Federal service because it was considered, and indeed is, a very high-quality workforce, a place to get training, but also because its wages, while not high, were made up for by the benefits and the longevity and the pension.

The private sector now more than equals that, much more than equals that, and it is inherently more attractive to young people. I mean, it is far more sexy now to go to a dot.com or to the high-tech part of the economy than to come to the drab old Federal Government, as it is seen, especially since it is very uncompetitive. The skills these young people have are just the kinds of skills that the Defense Department needs.

It is interesting that we are only now waking up to the importance of continuing to recruit for our volunteer service, as we see more and more of those young people, not the most highly-trained people in our country, shying away from service. We have not given the same kind of attention to the civilian side of the Department of Defense.

Government has invested in a very high-quality workforce. We spent the last few years downsizing that workforce through buy-outs during the last administration. I supported that downsizing because there were many supervisors and others who, over time, had become, it seemed to me, a part of an excessive number of employees. We saved billions of dollars. Now we have got to face whether this is the time to not build up, but to learn how to retain and rebuild. That does not necessarily mean that we pile on more people. It does mean that we become very strategic in how we rebuild the workforce of the Federal Government. This is not the same government that we have had over the years. It is a government that must be rebuilt in a very competitive environment and

with a radically changing workforce reality. I thank you, Mr. Chairman.

Senator VOINOVICH. Thank you.

We have a custom in this Subcommittee of swearing in our witnesses, and if you will all rise, we will swear you in.

Do you swear that the testimony that you are about to give is the truth, the whole truth, and nothing but the truth?

Mr. SCHLESINGER. I do.

Admiral TRAIN. I do.

Mr. HINTON. I do.

Mr. LIEBERMAN. I do.

Senator VOINOVICH. The record will show that all four of our witnesses answered in the affirmative.

Dr. Schlesinger, we appreciate your being here today and appreciate the time that you spent on the Commission and we are eager to hear your testimony. I think you are familiar with the tradition that we have here, that we will submit your testimony for the record and we would hope that the witnesses, to the best of their ability, would hold their testimony to no more than 5-minutes. Dr. Schlesinger.

**TESTIMONY OF HON. JAMES R. SCHLESINGER,<sup>1</sup> COMMISSIONER, ON BEHALF OF THE U.S. COMMISSION ON NATIONAL SECURITY/21ST CENTURY, ACCOMPANIED BY ADMIRAL HARRY D. TRAIN,<sup>1</sup> USN, RET., COMMISSIONER, ON BEHALF OF THE U.S. COMMISSION ON NATIONAL SECURITY/21ST CENTURY**

Mr. SCHLESINGER. Thank you, Mr. Chairman. Admiral Train and I are here on behalf of the Commission on National Security/21st Century. The work that we did points to the personnel problem of the U.S. Government as at least amongst the most formidable facing national security, and in the judgment of some of the Commissioners, the single most important problem facing the United States.

The United States today is the dominant power in the world and, therefore, it is expected that its representatives overseas, its government officials here in the United States, and its military forces show high quality performance. In the absence of that, our position as international leader will deteriorate. It is, therefore, our concern that we have seen a steady deterioration in the ability of the government to attract the necessary personnel.

The Commission first looked at the problem of political appointees, and while I do not want to go in any depth because that is not the focus of this particular panel, I should point out that The Brookings Institution has just published a new issue on the state of the Presidential appointment process and the bureaucracy, and the lead article—I read the first paragraph.

“The Presidential appointment process is a national disgrace. It encourages bullies and emboldens demagogues, silences the voices of responsibility, and nourishes the lowest form of partisan combat. It uses innocent citizens as pawns in politicians’ petty games and

<sup>1</sup>The combined prepared statement of Mr. Schlesinger and Admiral Train appears in the Appendix on page 36.

stains the reputations of good people. It routinely violates fundamental democratic principles, undermines the quality and consistency of public management."

Mr. Chairman, the period taken to confirm a Presidential appointee has increased to 8½ months, and those who are required to spend that time are 1 in 3 Presidential appointees as opposed to 1 in 15 or thereabouts at the start of the Kennedy Administration.

I turn now to the permanent government staff and our concern about the talent and the training of that staff. In the first instance, we look at the Foreign Service. The Foreign Service has seen a decline of 25 percent in applicants, and when it offers positions in the Foreign Service to potential new appointees, less than 10 percent now accept those jobs. It takes 18 months to 20 months for an individual to be approved as a potential recruit, and by that time, as Ms. Norton has indicated, they have moved on to other jobs in the private sector that are more competitive.

With respect to the military forces of the United States, we see a steady decline in our ability to recruit and retain the necessary capabilities. For example, the U.S. Army in 1999 lost 13.6 percent of its captains, who retired voluntarily. That hemorrhaging continues today, and one can simply extrapolate the impact on our ability to perform well militarily and to represent the country overseas when one sees a continued drain of talent of younger officers. That is perhaps the most glaring example, but it is typical of what is going on. The shortage of pilots and technicians is a growing problem for the Armed Forces.

Finally, with respect to the civil service itself, we see a growing inability to attract the necessary talent to the civil service. As you have pointed out, Mr. Chairman, in the next 4 or 5 years, we will see a departure of a very large percentage of the existing civil servants and of the senior membership of the service. That represents a pool of talent that was accumulated in past years. Our ability to replace it is diminishing at this time and we are in a position in which we will see fewer and fewer people that are available unless we change our ways.

The Commission has strongly recommended that we look upon the recruitment and retention of talented people as a principal problem of the Federal Government, and we recommend three things. First, changes in the form of compensation; flexibility, second, and flexibility goes with compensation. We recommend education and training. That is a form of compensation. Happily, the U.S. military, one spends years in advanced education. We contrasted this with the Foreign Service, which Foreign Service officers told us was broken, and one of the things that is necessary to achieve an improvement in the Foreign Service, Mr. Chairman, is that we allow ample time for education so that it is competitive with other elements of the government.

Let me pause there and turn to Admiral Train.

Senator VOINOVICH. Thank you very much, Mr. Schlesinger. Admiral Train.

Admiral TRAIN. Mr. Chairman, thank you for this opportunity to appear with you and share with you, share with this distinguished Joint Committee the work that we have done over the past 2-plus

years. And in those 2-plus years of studying all aspects of U.S. national security, it became clear that it was crucial for us to address our human capital needs as part of our work.

Human capital, as has been mentioned here many times this morning, is the bedrock of all elements of our national security. Our personnel design, they build, operate, and maintain our weapons systems. Our personnel design and execute national security policies and our foreign policies. Meanwhile, the end of the Cold War, the recent economic surge, and the demographics of the baby boom are creating severe personnel strains on our national security structure. We are losing our ability to recruit and retain the high-quality personnel we require.

It will do us precious little good to enjoy the finest warships the world has ever seen—and we do—if we cannot recruit and retain the top-quality personnel necessary to operate them. It will do us precious little good to enjoy the status of the world's only superpower if we cannot find the Presidential appointees, Foreign Service officers, civil servants, soldiers, airmen, marines, and sailors to keep our national security apparatus functioning effectively. And if our superpower structure must depend upon non-U.S. nationals for its scientific and technical brainpower, we clearly have an educational problem which needs addressing.

These are the challenges which the Commission on National Security/21st Century addressed over the past several years. Our Phase III report provides our recommendations for dealing with these challenges. Thank you, Mr. Chairman.

Senator VOINOVICH. Thank you. Mr. Hinton.

**TESTIMONY OF HENRY L. HINTON, JR.,<sup>1</sup> MANAGING DIRECTOR, DEFENSE CAPABILITIES AND MANAGEMENT, U.S. GENERAL ACCOUNTING OFFICE**

Mr. HINTON. Thank you, Mr. Chairman, for having us over to participate in this important hearing. As you have recognized, human capital is a pervasive problem across the Federal Government and has recently been designated by GAO as a government-wide high risk area. Mrs. Morella, I want you to know that the Comptroller General and others of us in GAO are making every effort we can through our testimonies and discussions up on the Hill to get everybody on the same page, as well as the Comptroller General's outreach to the new members of the Bush Administration to make this issue apparent to them.

The human capital issues facing Defense and State are not fundamentally different from those facing other Federal agencies, but I have got to tell you, I think they rise, Mr. Chairman, up on the scale. Threat does not wait, and the preparedness of our country rests with State and the Department of Defense. As Mr. Schlesinger just pointed out, it is very critical that we address them.

Although the specific problems in each of these agencies are somewhat different, they all have a common origin, the lack of an overall strategic approach to the management of the workforce. A key problem at Defense, and it is very evident in the Defense Science Board's report, is the absence of an overarching framework

<sup>1</sup>The prepared statement of Mr. Hinton appears in the Appendix on page 43.



within which the future DOD workforce is being planned. DOD needs to link its requirements for all elements of the total force, that is, the active, the reserves, the Federal civilians, and the contractors, to its long-term strategy.

Primary human capital challenges on the military side include recruitment shortfalls, continued high first-term attrition, retention problems in certain occupational areas and skill levels—that would be mechanics, pilots, communications analysts, and the like—and the quality of life issues, from high personnel tempo to military housing and health care.

On the civilian side, they include a workforce profile skewed toward high years in service with too few younger workers in the pipeline, insufficient professional development and training for civilian employees, and the need to consider the long-term shift to a greater reliance on private sector contractors as a larger component of the total force.

I also want to add, Mr. Chairman, that these challenges are involved to some extent in each of the six high risk areas that we see in Defense on the business side—that is, financial management, information technology, acquisition, contracting, support infrastructure, and logistics.

At State, several recent studies and our own work have identified a range of challenges: Recruiting new entrants into the Foreign Service, retention of Foreign Service and civil service personnel, career advancement opportunities, providing adequate staff training and development, and quality of life concerns at the overseas postings.

In sum, our work and the many studies that have been done point to the same conclusion: Action is needed. It begins with strategic planning. Human capital needs to be viewed from a strategic standpoint across the government. While Defense and State have taken action, a lot more needs to be done, and we are willing to work with you, Mr. Chairman, to get on a path for a solution to addressing those problems.

Senator VOINOVICH. Thank you, Mr. Hinton, and I sincerely appreciate the hard work that Comptroller General Walker, you and the other members of your team have done to address this issue.

Mr. Lieberman.

**TESTIMONY OF ROBERT J. LIEBERMAN,<sup>1</sup> DEPUTY INSPECTOR GENERAL, DEPARTMENT OF DEFENSE**

Mr. LIEBERMAN. Thank you. I guess I am the personification of the aging defense career civil servant. [Laughter.]

The condition of the Department of Defense workforce is of particular concern to the Office of the Inspector General because our auditing and investigative work constantly reinforces awareness that a properly sized, well trained, and highly motivated workforce is by far the best defense against fraud, waste, and mismanagement.

For DOD, of course, human capital issues extend beyond the civil service, affecting both active and reserve military personnel and many parts of the private sector on which we depend for national

<sup>1</sup>The prepared statement of Mr. Lieberman appears in the Appendix on page 61.

defense materiel and services. My office's recent work has focused, however, on problems caused mostly by DOD civilian workforce issues.

The seven audit reports discussed in my written statement have a common theme, which is that 11 years of civilian workforce downsizing, without proportionate workload reductions or productivity increases, have created or exacerbated mission performance problems across a wide spectrum of DOD organizations and civilian personnel specialties. These seven reports contain several dozen specific descriptions of such performance problems.

In an age when organizational agility is the watchword for successful businesses, DOD has been anything but agile when it comes to managing human capital. This is partially true to restrictive personnel management laws and regulations, although most DOD managers seem to underestimate the authority and flexibility that DOD already has. In my opinion, there has been a particularly marked reluctance to innovate, to spend money to improve the civilian workforce, and most of all, as Mr. Hinton says, a lack of strategic planning.

Throughout the 1990's, the only strategic departmental goal related to the civilian workforce was to cut it. Four of our seven reports reflect the problems caused by reducing the acquisition workforce by over half without an understanding of workload trends or risks. Those performance problems cut across the full spectrum of DOD contracting and contract oversight functions.

Another one of these reports pertains to the loss of inventory management control caused by inadequate staff and excessive workload at two supply depots. The other two reports discuss serious delays in the processes for granting initial security clearances or updating existing clearances, which a few days ago Chairman Goss of the House Permanent Select Committee on Intelligence termed "an open wound" from a national security standpoint.

I would like to make two general observations. First, significant downsizing obviously was necessary to conform to post-Cold War budget realities. But it seems to me that the Department's performance in providing better tools to enhance employee productivity and in genuinely streamlining administrative processes to cut workload has fallen far short of the mark. Those failures to offset the impact of staffing cuts are widely evident. In my view, the Department needs to step back and reassess what is actually happening in terms of process changes, productivity improvements, and workload trends. Only then can meaningful strategic workforce planning be done. Such planning must apply to all segments of the Department, not just the acquisition corps.

Second, the Department as a whole also lacks a comprehensive strategy in place for dealing with pending mass retirements of experienced managers and workers. Although some organizations, such as the Air Force, have begun moving aggressively over the past year, ways must be found across the DOD and in all disciplines to accelerate the normal on-the-job accumulation of experience and replace it with well crafted, just-in-time training.

The Defense Leadership and Management Program is an excellent first start along those lines, as is the rapidly expanding use of Web-based technology for getting information to our knowledge

workers. In addition, we need sustained executive level interest in retaining the best and brightest middle managers who will be tomorrow's senior managers, and skilled junior personnel with managerial potential. Otherwise, there will be a general drop-off in efficiency and productivity in many organizations toward the middle of this decade.

One of the many statistics that has been brought to light over the past few months about the DOD workforce that I find most compelling is that the most common age of a DOD civilian worker right now is 54. I think that sums up the pending crisis.

That concludes my statement, Mr. Chairman.

Senator VOINOVICH. Thank you very much, Mr. Lieberman.

The Ranking Member of our Subcommittee, Senator Durbin has joined us. Senator Durbin, would you like to make any statement or comments before we ask questions.

#### **OPENING STATEMENT OF SENATOR DURBIN**

Senator DURBIN. Mr. Chairman, thank you for this continuing series of hearings on this problem that faces us. I think that some of the recommendations we are going to consider today are extraordinarily good, and I would like to follow up in the question period with specifics.

Senator VOINOVICH. Thank you.

Dr. Schlesinger and Admiral Train, both of you were national security practitioners and the demands on your time, I am sure, were formidable. Given all of his other responsibilities, what recommendations would you offer to Secretary of Defense Rumsfeld to ensure that the human capital issues are addressed in the Department of Defense?

Mr. SCHLESINGER. Well, those recommendations, Mr. Chairman, are included in the report. We recommend that we broaden the activities of the people in the national security area by establishing the National Security Service Corps, which would permit people from the Department of Defense to move temporarily to the Department of State or to CIA and alternative movements, which gives a greater breadth of understanding of the overall national security problem as well as an understanding of the other departments or agencies that are working in this area.

As I mentioned in my opening remarks, we look upon the training by the Department of Defense as a model that should be emulated by the Foreign Service. We recommend that the National Security Education Act be broadened to provide financial support for those who are prepared to enter into the civilian service or the military service, and particularly for those, as you indicated in your article of yesterday, who have expertise in foreign languages or in the sciences.

Senator VOINOVICH. Admiral Train.

Admiral TRAIN. Another part of our work, and Secretary Schlesinger has mentioned all our recommendations are in the report, and they have been briefed to Secretary Rumsfeld. We were privileged to spend over an hour—the Commission was—with Secretary Rumsfeld and we shared our recommendations with him. That covered much more than the human capital piece of the Commission's work.

But one of the specific objectives that we strive to achieve is to persuade the accountable authorities, such as Secretary Rumsfeld, to do for the civilian component of the Defense workforce the same thing that Goldwater-Nickles did for the military side and allow, or demand, that senior personnel in the civil workforce move between departments to enhance and broaden their experience base. If a civil servant, whether he be a low-ranking civil servant or an SES, has spent his entire career just inside the perimeter of the Department of Defense, then he is limited in his comprehension of the whole national security apparatus, which includes much more than the Department of Defense. It includes the Treasury, it includes State, it includes Commerce, and if they enact the legislation which will create the National Homeland Security Agency, it also will include that.

We believe that civilians should be forced to move between departments as a condition of their promotion when they get to be of the point where they are aspiring to be a flag officer equivalent, namely SES employees. I think that very strongly.

I was privileged to be a part of the proceedings that resulted in Goldwater-Nickles. I am very proud of the result of that. It has caused the subsequent directors of the Joint Staff after I left to enjoy much more talented personnel than I enjoyed when I was a director, because people have been forced to work outside their own service and in the joint arena. I think we can do that and should do that for civilian personnel, also.

Senator VOINOVICH. There are many problems there. The issue is you get a new Secretary of Defense, and we have had some good Secretaries of Defense who have been interested in doing the best job that they can, but somehow, somewhere along the line, they have not identified the right mechanism to give this issue of human capital the attention that it deserves. I would really be interested in finding out how to make that happen.

People often ask me, how can we get this to be a priority? And I have said, well, it has to start with the Office of Management and Budget. We need to have a good Office of Personnel Management. We need to upgrade the folks in the various departments that are involved with human capital managements.

But what is the recommendation to Rumsfeld? You know the Department of Defense as well as anybody. How would you reorganize it or create something different that would guarantee that this very important issue gets the attention it deserves?

Mr. SCHLESINGER. Mr. Chairman, there are no guarantees in this world. We simply have to continue to assert what the problem is, and in the absence of such assertions fertilizing, as it were, the minds of those who are currently in authority, there will not be improvement. But we cannot guarantee it.

When you ran down that list, there is one element I want to bring to your attention that was included in the report of the Commission and that is the responsibility of the Congress to make adaptation in terms of these new requirements for recruiting technical people and the like. The responsibility is not only in the Executive Branch. The problem, as you hint, is that a head of a department is only in office for 4 years or thereabouts. He is concerned with his immediate problems. Few of them take the long view, and

as a consequence, few of them have been willing to tackle what is becoming increasingly obvious, the slow deterioration of the capacity of the Federal Government to attract the talent and the skills that are necessary to our effective performance internationally.

Senator VOINOVICH. Mr. Hinton.

Mr. HINTON. Yes, sir. One of the things that I think is very important to this is to have a commitment that you are going to adopt the strategic view of human capital, seeing it not just as a cost but as an investment, and that will take priority in establishing what you set out for the department to do.

No question, workforce planning is very key and we have got to marshal the right people together that can go through and take stock of what we need for the future and the 21st Century of the national security environment that we are looking at and see what the requirements and the knowledge, the skills, the abilities that we are going to need to face that, and then compare that to what we have in place and then start looking at what the gap is.

I think one of the first things that should be done is that he directs his team to go out and really do the research, looking into all of the personnel legislation there, to seek out the flexibilities that are within that legislation. If they run into barriers and fully understand the barriers and legislation, they need to think about good business cases as to what we can do to overcome those barriers.

I am really encouraged. GAO is encouraged from OMB's latest circular on what they are asking in the performance plans for 2002, that they ask all the agencies to go through and identify recruitment, retention, training, appraisal that is linked to program performance as part of its goals. I think then, Mr. Chairman, if you have the commitment and we have that response to that expectation that sets out for the Congress, to include this Subcommittee and all of the committees of jurisdiction over Defense and State, as a good oversight tool to make sure that the dollars that we are allocating to the Department go after some of those key issues that we have.

I think that is a good management framework, but it begins right at the top. That commitment has got to be there to marshal this, because if not, there is going to be a lot of competing policy issues, as Dr. Schlesinger just said, to decide, and I do not think that is intentional in any way, but we have got to get a framework going and then come back and revisit our progress against that framework.

Senator VOINOVICH. You were saying that OMB has put out a circular on that?

Mr. HINTON. Yes, sir, A-11.

Mr. SCHLESINGER. Mr. Chairman, could I add something more? A critical point has not been addressed, and that is for the last 30 years or more, politics in this country has heaped scorn on the Federal service, on the bureaucracy. The Dictionary of Quotable Quotes says that the bureaucracy is a giant mechanism operated by pygmies. It reflects not only a widespread public attitude of declining respect and honor for those who serve in the Federal service, but it is something that we will have to cure if we are to begin to turn around what has been this deteriorating situation. It must start

with the President, but it must be not just the Secretary of Defense, not just the Secretary of State, but the entire elected officialdom of the United States that points to the necessity and the good job that can be done for the country in this emerging era.

Senator VOINOVICH. I agree with you. One of the things that I have resented during my career as a county commissioner, mayor, and governor is the negative way that some have characterized our workforce. I want to tell you, I would take our public workforce and put it up against any private sector workforce when those people have been empowered, trained, and given the tools to get the job done. And I really believe that this negative carping and criticism of the Federal workforce has had a substantial impact on the fact that so many young people today are no longer interested in working in the Federal Government.

Mr. SCHLESINGER. Reinforced by what Representative Norton said, the enormous growth of the attractiveness of the private sector as compared to 20 and 30 years ago.

Mr. HINTON. Mr. Chairman, if I might add, it is not the employees being the problem. The basic problem here is the lack of a strategic approach to this whole area that really puts that priority out there, and we need to put the resources behind it, and as Dr. Schlesinger says, we need to have a governmentwide approach to this so it is clear to everybody.

Admiral TRAIN. As we recruit people to replace those who will be leaving in large numbers in the next few years, we have a specific problem which has to be borne in mind by such accountable authorities as Secretary Rumsfeld, which is that our military today is in a situation where combat has become more agile, faster, more lethal than at any time in history and will continue to ride that vector up. We need to ensure that our hiring practices are agile enough to keep pace with their increases in technology, lethality, agility, and speed with which the military must fight, because that is what defense is all about. That is what national security is all about. If not fighting, the readiness to fight and the perceived capability to fight.

So if we have arcane hiring practices in our civil service, for example, that were designed to mobilize a Nation in World War II and have not changed much since then, we have a problem, and somehow, through legislation and other methods, we have to ensure that we can hire people when they are available, when they come out of college at the full height of their intellectual powers, put them into jobs in the government and keep them there, and keep them there because they are satisfied with the work environment in which we place them.

Senator VOINOVICH. Senator Durbin.

Senator DURBIN. Thank you, Mr. Chairman.

I believe the year was 1958 when the Russians launched Sputnik.

Mr. SCHLESINGER. In 1957.

Senator DURBIN. In 1957, thank you. I stand corrected. It was a galvanizing event, striking fear in the hearts of many, including the American people, about America's loss of superiority and our vulnerability.

I guess the most important part of this galvanizing event is it galvanized Congress and the President, and as a result of it, many things were done, but one had a personal impact on me, the creation of something known as the National Defense Education Act. This was a low-cost, low-interest loan program available to young men and women like myself to go to college. I do not know that I ever could have attended the college that I attended, I am not sure I ever would have graduated, without that National Defense Education Act, and I am sure that there are thousands and thousands of stories just like my own.

The decision was made by this Congress and this government that if we were going to compete, we had to have the people ready to compete and we needed more college graduates. What happened, of course, in the next few years is we saw a revolution in higher education. It was no longer just the province of the elite. Everybody had a chance, including kids from East St. Louis like me. And I sit here today because of that satellite, the response by Congress, the creation of that loan program, and the chance it gave me to go to school.

I think about that in the context of our discussion today, because part of the recommendations that come from the Commission we are considering suggest that we need to talk about education in this country anew and how we increase the workforce of America in critical areas, not just obviously to serve the government needs—that is the nature of this hearing—but to serve our Nation.

I think, frankly, that some of the recommendations are exceptional. In fact, I have gone so far as to incorporate them in proposed legislation that parallels the National Defense Education Act, known as the National Security Education Act. It goes particularly in the area of math and sciences, but beyond, to try to find ways to help young people move in the right direction, toward careers that are not only fulfilling to them but that we can help them attain.

I would also say that if we are going to look to the here and now, that many of the young men and women, recent college graduates or about to be, have a lot of things on their mind as they finish school. But one of the things which most of them have on their mind is: "How am I ever going to pay off that student loan?" It is huge. It is not like the days when I went to school, where you could finish 7 years of education and have a student loan of less than \$10,000. Kids all laugh at me when I tell them that on college campuses, but that was the fact in the early 1960's.

These kids come out of school with \$10,000, \$20,000, \$30,000, \$40,000, \$50,000, \$60,000, and \$80,000 in loans, and when they think about their career choices and whether they want to work for the Federal Government, I am sure one of the first things they say is, how in the world could I afford it? If I have to pay \$1,000 a month for a student loan, I cannot take this job at a GS-7. It just does not work.

We have programs already in place in the Federal Government that allow us to forgive student loans for those who will make commitments to service, Federal civil service, but Congress will not fund them. And the agencies, as a result, cannot use this valuable tool to bring good people in and say, give us your skills and we will

help you pay your loans. We know the salary is not as great as the private sector, but you do not have to worry about your loans. We are going to help you pay them back. I think that would be an enormous incentive for recruiters out on college campuses, trying to attract people to the Department of Defense and to other critical agencies. And it is another area that I hope to work with the Chairman on in promoting more and more of these loans.

It took Sputnik in the 1950's to finally move us as a Nation to realize this was a priority. Now post-Cold War, what is the galvanizing event? What is it going to take to trigger—what is the catalyst that is going to bring us to the point where we not only agree with your findings, but have the political will to push them forward? Is there one? Mr. Schlesinger.

Mr. SCHLESINGER. Well, you ask a very difficult question. The Japanese no doubt regret Pearl Harbor, that it awakened the United States. Sputnik was the momentary achievement of the Soviet Union which elicited a response that was overwhelming, and we do not have that anymore, given the fact that, at the moment, the United States is so formidable.

The Commission points to the fact that other groups in the world, other nations are becoming more resentful of the United States because of our dominant position and sometimes our tendency to preach and that they are looking for asymmetric ways to attack us. That includes the use of possible biological or chemical attacks on the United States. We were concerned that over the next quarter-century, this country would be submitted to such attack. Regrettably, that would turn around attitudes immediately. There is also cyber warfare, which can attack our computer systems and affect our civilian economy. It can attack the computers that control electric power in this country. And those things would wake us up.

Do we have, as your question suggests, the fortitude to anticipate that, and by taking prompt and corrective action now to avoid having the dramatic effect of a Pearl Harbor or a terrorist attack, massive terrorist attack in this country? It is a good question. I hope we have the answer.

Admiral TRAIN. One of the greatest threats to the American people today is the fact that the American people see no threat. That in itself is the greatest threat. I sincerely hope we do not have to experience an event such as Secretary Schlesinger has postulated to galvanize us into action. I would hope that we are bright enough to foresee the potential for these type of disasters and do those things that are necessary to deter those disasters from happening.

Senator DURBIN. Could I ask, Mr. Chairman, if I might, one last question of Mr. Hinton and Mr. Lieberman. I would like to have your thoughts on the forgiveness of student loans. Is this a fertile area for us to look to to attract the kind of people we need?

Mr. HINTON. Yes, sir. In fact, I think that there is, as you mentioned some authorities that are already out there. I think it is up to the individual agencies to look and put the money there. I mean, it is up to the agencies, I think, to make some of that money available to help in that regard, and I think that is a tool. That is one of the tools we have got to really look at and give consideration to.



Mr. LIEBERMAN. I totally agree. We are, in fact, in the Office of the Inspector General, going to utilize the authority to help people pay off these loans. This is a painful choice, because the top line is fixed where it is, so we have to give up work-years in order to make that kind of choice. But it is definitely worth it.

The same thing applies to up-front cash bonuses to recruits. When we hire entry-level auditors, we are giving them a \$6,700 up-front bonus, which is the only way we can compete with private industry, because the industry entry salaries are higher. We have to be willing to spend money to improve the workforce, and I do think that is a problem, particularly because senior leadership has not made it a priority.

I would like to go back to the question of, will there be a galvanizing event? Having just been through the Y2K crisis, I saw how all the wheels spun until there was a date certain, and then Congress and the Executive Branch and the private sector really did get in sync and do a marvelous job on a very difficult problem.

There is not going to be anything like that involving the civilian workforce, unfortunately. The closest thing we are going to have to it, I think, is a constant stream of reports from the General Accounting Office and Inspectors General and committee oversight here on the Hill identifying management problems in the Federal Government. If one looks closely at all at those reports, you are going to find an overwhelming majority of the management problems relate back to workforce problems, either skills, deployment, motivation, numbers, or whatever.

So the handwriting is there all over the wall, but unfortunately, I do not think there is going to be any defining moment.

Senator DURBIN. Thank you very much.

Mr. SCHLESINGER. Senator, there is such a thing in appropriations bills called a line item.

Senator DURBIN. Yes. I am on the Appropriations Committee and familiar with the term.

Senator VOINOVICH. When Comptroller General Walker testified before the Subcommittee, he said that the incentives that we have under existing legislative authority could take care of 80 to 90 percent of the problem, but the fact of the matter is that the agencies are not utilizing the incentives that they have. It might be helpful, Mr. Hinton, if you and Mr. Lieberman could provide a list of the current incentives so that we could see that and then perhaps another list of things that you think might be helpful in addition to that.

Mr. HINTON. I would be happy to provide that for the record, if that will do.

Senator VOINOVICH. Great.

Senator DURBIN. Thank you very much, Mr. Chairman. Thank you to the panel, too.

Senator VOINOVICH. This is the first time I have chaired a joint Senate-House hearing, but I would like to turn at this point to Representative Davis, the Ranking Member of the House Subcommittee.

Mr. DAVIS. Thank you very much, Senator. Let me apologize for having to miss some of the testimony, but I would like to pose a general question and ask if each one of you might be able to re-

spond. It seems to me that we have been on a pattern for the last several years of privatizing, downsizing, and outsourcing in terms of Federal Government operation. I guess my question is, how impactful might we think this pattern has been on creating the crisis or the situation that we currently face, and can we turn it around if that is the case? Why do we not start with you, Mr. Lieberman?

Mr. LIEBERMAN. Well, I was always taught to defer to Secretaries of Defense, so I feel a little funny going first. [Laughter.]

Certainly, there is a place for utilization of the private sector's vast talents, so outsourcing is often the most efficient way to get the job done and there is a place for that.

I do think, though, that has to be done in the context of overall strategic planning in terms of what is the workload and what resources need to be applied against that workload. Some of those resources can be in-house and some of them can be contractor, but you have to go through a logical planning process. I think that kind of logical planning process has largely been lacking for the last 10 years. We have outsourcing goals for the sake of outsourcing goals as opposed to being part of a logical thought process. So I do think there are disconnects and things that need to be revisited in terms of what is being outsourced and what is not.

Another problem that arises when we do a lot of outsourcing is that if we cut the in-house capability to control those contracts, we are creating vulnerabilities and risks. I do think that the acquisition workforce has been cut to the point where its ability to oversee these outsourced functions has declined past the point where anyone should be comfortable. I do not think we are doing a very good job of contractor oversight and we are not necessarily getting our money's worth when we contract out for some of those services and we do not know it. So I do think there is more work to be done along those lines.

Can these problems be fixed? Yes. It is a matter of will to do so, good planning, and applying resources where they are really needed.

Mr. DAVIS. Would anyone else care to respond to that?

Mr. HINTON. Mr. Davis, I would agree wholeheartedly with what Mr. Lieberman is saying on the need on the strategic planning. It has got to be considered a part of the force that we are looking at and the use of contractors and how it fits into the big picture. At GAO, that has been one of the things that we have seen lacking throughout the government, not just at Departments of Defense and State.

I will point out that during the 1990's, the acquisition workforce was reduced by about 47 percent, compared to about a 37 percent decrease in the total DOD civilian workforce, and that compares to about 17 percent reduction governmentwide on the civilian workforce.

But the concern is not necessarily the numbers, but really whether the resident skills remain in that workforce for getting the job done, and that is where we really have not focused to take stock of what we need for the future and what we have got today and what we need to fill that gap in, because we are moving to high-tech, a different type of skill needs, and we have not seen that plan

coming forward as to what those real requirements are and what the approach for the government is going to be, particularly in Defense and State.

Mr. DAVIS. Delegate Norton mentioned the inability of the Federal Government to compete. I wonder if any of you might think—yes, Mr. Secretary?

Mr. SCHLESINGER. Well, Mr. Davis, the first point I would like to make is it is a lot easier to make the Federal workforce more attractive when the government is expanding, as it did after the Korean War, than when it is shrinking, and so downsizing and outsourcing has an impact. It is part of a broader impact of that decline in the respect for the Federal workforce.

But there is another aspect that one must keep in mind, and I agree with what has just been said about outsourcing. It is important for the civil service to react competitively. One of the reasons that we have been driven to outsourcing is the feeling that the civil service has not reacted competitively compared to the private sector, and, therefore, the kinds of flexibility that the Chairman has referred to earlier will make in-house government service more effective and thus reduce the attractiveness of outsourcing. This is a problem that can feed on itself, or, hopefully, be reversed.

Mr. DAVIS. Thank you very much. I think I will pursue the other question perhaps after others have had a chance.

Senator VOINOVICH. Congresswoman Morella.

Mrs. MORELLA. Thank you, Mr. Chairman.

On the outsourcing, I am glad that the point was raised. I think we have a challenge in making sure that we have appropriate accountability built into it, too, because you sometimes remove—you are tiers removed from the person who understands fully the total mission and our own opportunity to do that. I think we have to be very cautious about resorting to outsourcing when we have people who have the commitment and understand the mission internally.

I get very troubled, as I know my colleagues do, about the length of time, and I think you have addressed that in your written statement, about the long and complex application process for civil service applicants compared to the private sector and the non-profit sector. Would you like to comment on that? I am looking at it in terms of what the solution would be. I have had constituents who have said, “I had my application in, and boy, going through the security clearance, I am going to have to continue to have a livelihood. And if the people for whom I work know that I am being considered, then I am treated differently on the current job that I have now that I need for my revenue.” I just wondered if you might comment on what it is we can do and what you have found from your experience.

Mr. SCHLESINGER. If the Federal Government cannot make decisions on personnel, and particularly critical personnel, those with technical skills, in, let us say, 60 days, it is inevitably going to suffer from a great disadvantage in dealing with others when you have a whole range of applicants.

I mentioned earlier that in the Foreign Service, that by the time you get through that 18 months of consideration and the offers are made, that less than 10 percent were accepted. That strikes me as

unacceptable. We must be able to move more rapidly just to compete with the private sector.

Mrs. MORELLA. How do we do it?

Admiral TRAIN. We probably have too many people in jobs that require security clearances. Let me rephrase that. We probably have too many requirements for security clearances as opposed to the actual necessity for those clearances. The security clearance process certainly does slow down the hiring process, and if we can, in an enlightened way, decide certain jobs do not require that or they may ultimately require that in 2, 3, or 4 years, then we can improve the rapidity with which we hire people. But as long as that security clearance is hanging out there, it is going to slow things down, plus which we are still using those World War II hiring practices, which do not necessarily apply in this high-tech world that we are living in today.

Mr. SCHLESINGER. Congresswoman Morella, the former Speaker of the House of Representatives, Tom Foley, took almost a year in getting cleared. He was asked by various people whether his name had ever been in the newspaper—it had been, whether he had ever been referred to critically and questions of that sort. If Tom Foley takes a year to get clearance, it tells you something about what is now the congested process that we now enjoy.

Mrs. MORELLA. I really want to be part of that solution with you, Mr. Chairman and Mr. Scarborough. I think it is important for the security positions. I think it is important for the other civil service positions, too. I think that it also has something to do with the difficulty of recruiting. It is like a lack of patience that is inordinately demanded.

Do you want to comment on it, Mr. Lieberman?

Mr. LIEBERMAN. Yes, ma'am. We hire 100 to 150 people a year in my office and we have suffered all the frustrations of managers making offers to good people and then watching them lose patience with us after it takes months and months for them to get on board. We are doing better now than we used to, but it is a brute force-type effort to try to push personnel actions through a system that is not particularly responsive.

There are a lot of nuts and bolts problems here, and ironically, we were talking about problems feeding upon themselves. One of our difficulties is we get very poor responsiveness out of the personnel office, which we do not own, because it is under-staffed, because its workforce was cut arbitrarily and the workload did not go down. They have as much workload as they ever did, and, therefore, their productivity output is far below what is needed to support us properly. We lose at least a month in the personnel process. That is the part of the chain that we do not control.

I do not agree that there are too many positions that require security clearances. It is true that there is a terrible problem when you are talking about top secret clearances, because the Department's ability to process initial top secret clearance investigations quickly has basically collapsed and it is taking well over a year now.

For secrets, though, you can waive the main part of the pre-employment investigative process and bring the person in if you are willing to take that risk. If they can pass a credit check and

if their security form does not indicate anything would be a red flag to investigators, you can waive that. We have done so, for instance, for virtually all of our entry-level auditors, and that has saved us several months in the process.

So if you are aggressive about it, you can cut the process delays down to tolerable levels, but they still do not match the private sector, and anything that could be done to help us speed up certainly would help us recruit.

Mrs. MORELLA. We would look forward to working with all of you in trying to come up with a solution of that nature. Thank you, Mr. Chairman.

Senator VOINOVICH. Chairman Scarborough.

Mr. SCARBOROUGH. Thank you, Mr. Chairman.

I wanted to ask Mr. Secretary and Admiral Train, you all present a portrait of a very bureaucratic process when it comes to the civilian workforce as far as recruitment and hiring and promotion, and I trust that I have probably already missed the part about recruiting. I want to talk about promotion, though, because we all hear constantly that we have to make the Federal workforce more competitive with the private sector.

Well, in the private sector, if somebody that is 22 or 23 years old goes into the private sector, there is a general belief that if you go in there and you are a rising star or a hotshot, you are going to be rewarded, and if you do not carry through, there is going to be a failure. Now, there is a general perception that that is not the case in the Federal Government, that somehow there is not this same reward and failure system, and that may not be—maybe that is a misperception, but I will guarantee you that 99 percent of those people that are applying for jobs in the Federal Government have that perception, that the market is a bit more aggressive in rewarding success and punishing failure in the private sector than it is in the Federal Government.

Does the Federal Government, from what you all have seen, have a way to reward success? Do they have a rising stars program that I am sure most of the Fortune 500 has, from what you all have seen?

Mr. SCHLESINGER. Well, it depends on the time period. One of the reasons the Federal service was so attractive, let us say, in the period of the Cold War right after World War II was that it was exciting to be in the center of the fray and to be able to participate in making important decisions. Many people who were at the junior level felt that they had as much influence as the CEO of a medium-sized company.

We have lost some of that in recent years and it is partly a result of much greater limitations placed upon the latitude given to junior officers in various departments, and we can restore that, I think, if we work at it.

Mr. SCARBOROUGH. I was going to ask, Mr. Secretary, if that would appear to be the case over most departments you have looked at, or if there are some departments specifically—

Mr. SCHLESINGER. No, we are talking about the national security departments, Office of Management and Budget. I cannot speak to other departments of the Federal Government with which I am less familiar. But it is important, it seems to me, for us to recognize the

excitement that used to come and which has diminished, but in the perception of those out there that we are trying to recruit has diminished even more.

I recommend an article that was in the Naval Institute Proceedings just a year-and-a-half ago by Admiral Natter who interviewed junior officers in the Navy, surface officers, and 10 or 12 percent of them then aspired to higher commands. If you go back 25 or 30 years ago, it is a shocking number; 40, 50, or 60 percent would certainly have aspired to higher command. They looked at the commander of the ship and they discovered that he did not seem to be very happy in his job, that he had this long chain of command above him that nitpicked any decision that he made and so forth. He had greater responsibility and less authority.

And these men are now married, by and large, on board ship. Seventy percent of our young officers are married. They are under pressure from their wives not to be at sea 180 days a year or whatever it is, and so they were getting out. They were not going to re-up. And it was not simply a question of salary, it was a question of all of the amenities, including how their families were treated, medical care, family housing, and I commend that article to you.

Mr. SCARBOROUGH. And Admiral Natter would be an excellent person who obviously was with the Seventh Fleet, and I think he is running the Atlantic Fleet now——

Admiral TRAIN. He is.

Mr. SCARBOROUGH [continuing]. And he would be an excellent man to do that.

Let me ask you this, in followup to that, and then, Admiral, I would like your response to it. Is it possible, though? Are we being realistic? You talked about 20, 30, and 40 years ago that people felt like they had more of an investment and more of a say so. Is it possible, though, that, say, in 2001 compared to 1958, 1959, or 1960, after Sputnik and after a series of crises, is it possible for us to get that message to recruits?

Mr. SCHLESINGER. The answer is yes. You may not restore the same degree of attractiveness of the Federal service in 1960 or 1961, but you can certainly raise it very sharply from the level that it has been pushed down to by the attitudes that have been taken, elections, kind of the contempt of late-night humor that denigrates the Federal service.

Mr. SCARBOROUGH. Admiral Train.

Admiral TRAIN. As we downsized over the past 10 years, there was a tendency on the civilian side for the people with seniority to stay in their jobs while the attrition went to the younger people. The other part of this equation was that the younger people had the opportunity to gain employment in corporate America, whereas the older folks did not. So now we have this old, aging civilian workforce which is going to disappear over the next few years and create a crisis that we have to deal with by attempting to attract people at the bottom. We have very, very few younger folks among our civil servants, at least in the Department of Defense with which I am familiar.

We also have the problem of the dual-income families. Admiral Natter, when he was interviewing people and writing this article, was probably talking to officers whose wives also worked and they

were not as mobile, and because they were not as mobile as their predecessors had been, they had less job satisfaction. They could not move, they could not be transferred from San Diego to Norfolk because the wife had a job in San Diego. Of course, there are other officers that are married to officers. My daughter is a commander married to a commander, and that creates another type of problem.

So these are situations we did not have to deal with 10 or 15 years ago. They are new. We have to adapt to them. We have to create a recruiting climate where we can offer a job to a civilian, if it is a civilian job we are trying to fill, that gives him job satisfaction, that allows him to deal with questions like dual-income families, and is not so bureaucratic that he has to wait around a year before he knows whether he has actually gotten that job or not. We are competing with industry, no question about it.

Mr. SCARBOROUGH. Thank you, gentlemen. And let me just say in closing this round, I will tell you another thing that does not help an awful lot, and I have seen it firsthand in my district, is when you have BRAC 1989, BRAC 1991, BRAC 1993, BRAC 1995, and then the administration asking for BRAC 1997, 1999, now we are hearing 2001. There are an awful lot of people that are displaced by processes like that, also. I mean, I certainly understand the purpose of it, but it is something that somebody in the private sector does not have to worry about every 2 years, about whether they are going to lose their jobs, about whether they are going to be shipped across to the other side of the country. Thank you, Mr. Chairman.

Senator VOINOVICH. Thank you. We have an early bird rule here in the Senate. According to my list, it is Senator Akaka, Representative Norton, and Senator Carper are the next in line to ask questions. Senator Akaka.

#### **OPENING STATEMENT OF SENATOR AKAKA**

Senator AKAKA. Thank you very much, Mr. Chairman.

I want to thank our distinguished panel for your statements. It has been invigorating. As a matter of fact, I looked upon you as a quartet, singing the same song. That song, unfortunately, as our two Chairmen stated, who have devoted their political careers to ensuring the human capital side of government is not lost during debates on institutional reform, the song you sing is that there has been a collective failure in assuring that human capital is not at risk.

As has been mentioned here, it is a complex problem. We are looking for answers. I do not know whether to start from the top or the bottom. We talk about promotions. When you think of a janitor who has become a good janitor, where does he go from there? How do you keep ensuring good people are joining government at the entry level and retaining good people at the senior level?

And so these questions make it very complex, but we all agree that the personnel that we seek is very important to our system whether we are talking about space, or about defense personnel at Pearl Harbor. Our problems relate to money. I just hope the next crisis will not be financial, such as a depression.

Because I am on the committee that deals with these issues, let me start off by asking a question to Robert Lieberman. In a recent

interview, Philip Coyle, the Pentagon's last Director of Operational Tests and Evaluation, stated that it was penny-wise and pound-foolish for the armed services to cut their testing personnel by 30 percent and their testing facilities by 32 percent over the past decade. That was a quote. The failure to test weapons properly resulted in flaws that often led to fatal accidents, and I have heard the Secretary mention some of those types of incidents in the past.

My question is, do you agree that a thorough early testing of a weapons system is essential and do you have any comment on Mr. Coyle's statement concerning the cuts to testing personnel and whether his figures were accurate?

Mr. LIEBERMAN. I am not familiar with his figures, other than what I have read, but I presume they are supported. You asked me several questions there. Let me see if I can capture them.

Should there be sufficient up-front testing? Yes, absolutely. It is critically important. I believe that Mr. Coyle's last annual report to the Congress, which was made recently, before he left the Department, pointed out that a very large percentage of weapons systems are failing their operational test and evaluations, which is testing that occurs sort of in the middle of the program as opposed to up front, and that it was very costly to go back and change system designs at that point. Had better up-front testing been done, it would have been much cheaper.

I agree with that. I found the report that he produced quite troubling. I have actually used the example of the cut-back in the testing workforce as one of the examples of a functional area that has been adversely impacted by downsizing. So I also agree with him that there has been too much cutting, that the cutting was not well thought out in that particular area.

Senator AKAKA. Thank you. I would like to come back to the human capital issue that we have been talking about and reflect on employee organizations. This question is to any one of you. As Federal agencies seek and implement personnel flexibilities, what steps do you believe agencies should take to ensure consultation with Federal employee organizations and collective bargaining units?

Mr. HINTON. Senator Akaka, I think that they are a stakeholder in the process, and I think as the leaders of the agencies go through a strategic planning process where they look to the future workforce requirements and they do the necessary analysis to identify gaps in the skills that they need, they also need to consult all the stakeholders in the process, one of which is the group that you are considering.

I found through all of my work that we have done that there are a lot of good ideas out in the workforce that can help us get to certain objectives when we work them, and I also think they can have some good ideas to help solve some of the workforce issues we see.

But I think key to where GAO has been coming from in declaring the human capital area a governmentwide high risk area, it goes to skills, knowledge, and the abilities that we need in the future, and we just have not paid the level of attention to that whole area and we need to start focusing on that. We need to find champions who want to work the cause and make smart judgments in proceeding on how we will fill some of the real critical skills that we



are going to need in the future. Naturally, that will have some impact, but they are also important stakeholders to consult in that process.

Senator AKAKA. Thank you, Mr. Chairman. My time is up and I thank you for the opportunity.

Senator VOINOVICH. Representative Norton.

Ms. NORTON. Thank you, Mr. Chairman, and I want to thank all of these witnesses for the very important work you do, beginning with the Congress. I think that the work that Senator Voinovich has initiated and you have spoken to this morning really is a wake-up call for the Congress, except I think the Congress is asleep on it, and how to set off an alarm clock here becomes a major challenge for us all.

You have described what politely speaking could be called a crisis, everything from recruitment to an aging workforce. I have read your recommendations. Many of them are very good recommendations. I have real concerns about the short term, however.

First, I would like to ask a question that really befuddles me. I am aware what happens as young people get out of college. They often get out of college with quite good technology skills, just by having gotten a higher education. We know good and well that these folks do not run to their nearest OPM office to get hired by the Federal Government or to the nearest military station. We also know that civil service cannot, as I recall, hire foreign nationals. So both our military and our civil service are dependent upon our native-born workforce, or at least our native-born and naturalized workforce.

With respect to the high-technology workforce, any time when private employers are having to throw money at people with technology skills, where they find themselves competing against one another and, therefore, going to foreign nationals, how is the Federal Government hiring people with advanced technology skills? Are we training them, and if so, are we simply investing in them and then they get hired away where they can get more money? How do we get a pool? How have we gotten a pool, assuming we have one, of people who can, especially in the DOD area, work the advanced technology economy?

Admiral TRAIN. One way is to use loan forgiveness—

Ms. NORTON. No, no, I am asking a here and now question.

Admiral TRAIN. This can be a here and now question.

Ms. NORTON. I am asking not how can we attract them, I am saying, do we have them? This government, and especially the DOD, has to have instantly people with certain very advanced technology skills. You describe a situation that says to me that those people would be out of their minds to come to the government. So I am trying to find out how the high-technology part of the Federal Government is being run now. Are we on the spot taking what employees we have and training them? I then have a follow-up question. When they get this training, what in the world is to keep them here, since the high-technology sector wants them? I am trying to find out where we are now with respect to the most advanced workers, how we are able to run this government, assuming that these workers, certainly in the DOD sector, would be as much a requirement as they are in the private sector.

Admiral TRAIN. We do not train our—the existing employees, we do not send through training. We do not give them——

Ms. NORTON. Well, where do we get them from?

Admiral TRAIN [continuing]. Scientific and technical education. We have to hire people with scientific and technical education and they are in short supply because the typical American college student, the typical American high school student does not go into science and technology. They go into other things. They are difficult to find. The industry depends upon, as you have already indicated, Ms. Norton, the non-U.S. national source for their science and technology needs. But if we can devise a system, and it has been indicated here today already that the authority is there, but to start funding the means of forgiving student loans for those that come out of the science and technology education process and hiring them to meet our needs, then perhaps we can do so in the very near future.

Mr. SCHLESINGER. We are not grappling with the problem. The Federal Government does not have the requisite scientific and technical personnel and it is losing many of the people that it already has.

Ms. NORTON. Do we outsource when we need folks?

Mr. SCHLESINGER. We have become dependent upon contractors, or in the case of the Department of Energy, we depend upon the ability of the DOE labs to hire people outside, and for a number of reasons, their ability to attract has diminished.

Ms. NORTON. Your recommendations are very important. If we were to start on them tomorrow, you yourself say that they would require some time to, of course, show results. Could I ask you whether or not, for example, government pensions still keep people working? I mean, what is there that we can do to keep people from retiring early, from simply giving up their pension because they get such a good deal, as it were, in the private sector? The government pension used to be part of that. So did health care, except we are way behind the private sector when it comes to the percentage we pay in health care.

So I am trying to find out whether there are at hand, with the existing workforce, which, as the Chairman says, half of it could retire virtually within the next 3 or 4 years, with the existing workforce, what could we do pending the time that we can draw more people to rebuild our workforce to keep the people in whom we have invested working longer?

Mr. LIEBERMAN. Could I tackle that one?

Ms. NORTON. Yes, please.

Mr. LIEBERMAN. I could have retired last August. I am still here.

Ms. NORTON. Why?

Mr. LIEBERMAN. The main reason is, I love my job and I think it is really interesting. When we go out to recruit or we talk to our employees trying to retain them, on a strict dollar basis, everybody is absolutely right; we just cannot compete with the private sector. Certainly, we need the ability to pay people with critical skills more. I was monumentally disappointed with the very modest specialty pay increases that OPM came up with for the information technology work series last year. I think that was a pittance and really will not have much of any effect.

The Federal Government has things going for it, however, that sometimes have enabled us to retain highly skilled people who could be making a lot more on the outside. We are a humane employer. We do not require people to work ridiculous hours. In my office, we have adapted the casual dress policy, which to young people is a very big deal, every day. I feel silly without a tie, but they like that.

A lot of our work is inherently interesting. We have criminal investigators who are experts in computer crime forensics, very esoteric matters, very highly skilled agents, tremendous demand for them in both the public and private sectors. We can keep many of them because they are really interested in the cases they are working in, like catching hackers hacking into national security systems, and they really enjoy the work.

So the stereotype of government bureaucrats doing nothing but pushing paper and being bored out of their minds really does not hold true. We have done a very poor job of advertising ourselves and explaining that to people. We have let the stereotype hold true, which is unfortunate. So I think we could do more immediately there. We put a lot of time, effort, and money hiring the best advertising firms for military recruiting and we have great looking ads on television. Nobody recruits for the civil service like that. Nobody recruits for the civil service at all, except with some print advertisement that is rather boring.

So I think certainly more compensation would help, but we do have some strengths that we probably do not emphasize enough.

Ms. NORTON. Mr. Chairman, I would just like to say, the recommendation of the panel for a National Security Service Corps rather much imitates the notion of an honors program in the Justice Department. The notion of creating an elite corps early on, so that if you join this corps, you feel very special and you have been hired for very special reasons, is one I would want to heartily endorse.

Mr. HINTON. Ms. Norton, can I just add one thing here, and I think that it goes across the government, is that we need to better understand the expectation folks coming out of school have for their work environment. I think the government can do a much better job and look in its tool bag to find ways to match up better with their expectations. The casual dress is one area, but there are other incentives that are out there that we can use, and I think there are a lot of those tools for which we do not fully understand the flexibilities across government, flexibilities that can be useful in drawing in new people and keeping some of the people that we have, in addition to the others that Mr. Lieberman just mentioned to you.

Senator VOINOVICH. Senator Carper.

#### **OPENING STATEMENT OF SENATOR CARPER**

Senator CARPER. Thanks, Mr. Chairman. To our witnesses today, welcome. We are delighted that you are here. We thank you for your testimony and for your service to our country. I want to thank the Chairman for inviting our friends from the other end of the Capitol to join us here today and give me a chance to hook up with Connie Morella, Representative Morella, who my wife and I met 15

years ago this year on our honeymoon in Jamaica. So it was nice to have that little reunion here, as well.

I apologize for missing your testimonies. I have a couple of other hearings going on this morning and I am trying to attend all of them. I missed what you said. If you have already addressed this, I am going to ask you, just for me, to repeat it.

Governor Voinovich and I used to be governors before we were Senators, and we are people who believe in the States as laboratories of democracy and the idea that we are actually interested in devolving some things back down to the States and figure the States can do better some things that we actually do here at the Federal Government.

What I would ask, just to start off with, are you aware of some practices that some of the States are following with respect to attracting and retaining exemplary employees, whether it is in the technology fields that Ms. Norton was touching on or some others? Are you aware of any best practices out there in the States where we could look to those States as models that we might emulate? Any one of you?

Admiral TRAIN. It does not come to mind in our work.

Senator CARPER. All right.

Mr. HINTON. Senator, I think that is part of the solution to the strategic planning process. I think part of that goes to once you know your requirements and your gaps, you need to learn the experiences of others and how they are tackling similar problems, and if they are having success, we in the government need to find ways to replicate that success across the different agencies, from a lessons learned standpoint, and I think probably the government has got some good lessons to share, the States too, and the local counties. We do not yet have a pretty good inventory of what those successes are. I think that effort is a positive. That is a good step that we need to be really conscious of.

Senator CARPER. Thank you. In the National Governors Association, we had a number of entities. The Governors Association existed in part to lobby the Congress and the President on behalf of the States. We also had a Center for Best Practices which we used to gather the best practices from the various States, whether it is dealing with increasing home ownership or whether the issue is trying to reduce recidivism or to encourage people to move off of welfare, to raise student achievement. We had our Center for Best Practices and gathered those good ideas and tried to make them available to the other States on a user-friendly basis.

Do we have the ability—are you aware if we have the ability, whether it is in the Department of Defense or in the Federal Government, where we are able to gather best practices within not the States necessarily but within Federal agencies?

Mr. HINTON. Yes, sir. In the—

Senator CARPER. And to share in a user-friendly way those best practices?

Mr. HINTON. Yes, sir. In GAO, we have done that across a lot of our audit teams. An area that comes to mind is the acquisition of major systems, where we have gone out as part of our research and looked for those best practices, and then once we have those, go back into the executive agencies and compare them to their prac-

tices, and where we can see that there is merit in following the best practices, we have adopted some of those recommendations.

In DOD's case, we think there are some good practices out there that they could use in acquiring weapons systems that they ought to follow unless there is a compelling national security reason not to do so. It will save money, it will get the job quicker, and I think that it will also let them know if the path they are going down will get them where they need to go. And we have used that technique widely in GAO.

Admiral TRAIN. We have a database that is called a Joint Unified Lessons Learned database where—but they are mostly operational and do not deal with administrative or policy matters. But yes, there is such a database. Whether or not that branches off into such matters as we are discussing today, how to better hire better civilians into the Department of Defense civilian structure, I am not sure whether that is covered. But there is a database for other things. It could be adapted to that, I suppose.

Senator CARPER. Thank you. Yes, sir?

Mr. LIEBERMAN. I believe a lot of that is done in clusters of organizations and managers who are in the same business area. For instance, the audit community within Defense shares ideas on recruiting and personnel management things, as does the Federal law enforcement community. But I do think more of that can be done in this specific area. We were talking in terms of people not understanding what authorities they already have. There has been an awful lot of duplicate research to figure out what those authorities are all over the Department. So we probably could do better if we could make that more systematic.

Senator CARPER. Mr. Chairman, my pager is going off here. It is trying to tell me something. Do we have a vote in progress?

Senator VOINOVICH. Mine has not gone off yet.

Senator CARPER. My wife is saying, do not forget that bread and milk tonight coming home. [Laughter.]

Can I ask one more question, just a quick one?

Senator VOINOVICH. Certainly.

Senator CARPER. Thanks. One of the great values I found over the years in a hearing like this is to find where our speakers, our witnesses agree, and let me just ask if you would each just give me one idea where you think you agree on something we ought to do this year—this year—to address the problems that we have talked about today, just one idea where you think you agree. Each of you give me one idea, if you would, on an approach to help us address these problems this year.

Mr. HINTON. I think that there is agreement that the human capital issue has gone unattended for many years in the government right now and I think there is agreement amongst the work that we have done, the Commission has done and other studies, is that it needs to be a priority within the Executive Branch to start addressing it, and from GAO's point of view, that begins with strategic planning as you look to your future needs, and I think that is a very key, fundamental point that needs to occur.

But it cannot occur unless you have got the commitment that starts with the President down through the secretaries, and that they are on board and are going to move in that direction. Because

what happens is sometimes there are competing policy issues that move things to the side, though not intentionally, but they lose that sense of priority that needs to be done, and I do not think that we can wait any longer.

I think all the studies point in one direction. Enough of this has been studied. It is time to act. To use the term from the McKinsey study that was done at the Department of State, there is a war on for talent and that talent is the folks that we need to bring into the workforce, particularly into State and DOD. It is our front-line defense and we have got to be prepared for what the future brings and we cannot wait much longer for that to be left unattended.

Senator CARPER. Thank you. Our other witnesses, one idea that you agree on.

Admiral TRAIN. The President should propose and Congress should pass a National Security Science and Technology Education Act with four sections: Reduced interest loans and scholarships for students to pursue degrees in science, mathematics, and engineering; loan forgiveness and scholarships for those in these fields entering government or military service; a national security teaching program to foster science and math teaching at the K through 12 level; and increased funding for professional development for science and math teachers.

Senator CARPER. Terrific. Thank you. The last word?

Mr. LIEBERMAN. I think both the White House and the Congress should demand that senior managers in the Executive Branch use whatever flexibilities they have now or whatever additional flexibilities are authorized and be accountable for getting on top of this civilian workforce problem.

Senator CARPER. Thank you.

Senator VOINOVICH. I want to thank the witnesses. I would like to acknowledge that Representative Cummings has arrived today, and Representative Cummings, we apologize to you, but we are going to wrap up.<sup>1</sup>

I would like to say that, from my perspective, one of our biggest jobs is to prioritize the things that we need to do to address this human capital crisis, and you have been discussing many of them here today.

Second of all, I would think that given the problems that the Commission's report addresses, we need to share that information with the chairman of the Armed Services Committee, the chairman of the Intelligence Committee, and the chairman of the Foreign Relations Committee and try to get them to focus their attention on this particular problem that has been ignored for so many years. Too often, it seems to me, they get distracted with other subjects. We have to get this onto their high priority list and also make sure that they come up with the money to fund some of the existing incentives and start looking at some of the additional things that we need to recruit and retain employees.

We never did get into the issue of training, for example, which I have mentioned on several occasions. When I inquired of the last administration how much money they spent on training, the Office of Management and Budget, responded, "We do not know." I think

<sup>1</sup>The prepared statement of Mr. Cummings appears in the Appendix on page 35.

any organization that is going to keep people and be vital and attractive must provide money to train those individuals, upgrade their skills and make it an exciting place for them to be.

I cannot help but think about this attrition issue that we have, and Admiral, you are talking about the changed nature of our armed services today. I will never forget as long as I live when I was in Tirana, Albania, and visiting with the crew of several Apache helicopters and talking to them after one of their comrades had died in the training missions. After the brass left, I asked them, what is the problem? And one of them told me, "Senator, do you not understand that this is a family Army?" And when I went to Arlington Cemetery and visited with David Gibbs' widow, the first thing she said was, "Do you not understand that this is a family Army and we never see our husbands?"

I think that is a very, very important thing that has been overlooked, and I know the services are starting to give some consideration to it. But I think it is fundamental if we expect to retain the people that we have and attract more people to the services.

Mr. Scarborough.

Mr. SCARBOROUGH. Mr. Chairman, thank you. I have enjoyed this first hearing. It has been very informative and important. I am honored to be sitting next to you. I have heard you called Governor and Senator, Mr. Chairman, and, of course——

Senator CARPER. Mayor.

Mr. SCARBOROUGH. I was going to say, one of his great accomplishments was becoming mayor and just stopping the river from catching on fire. [Laughter.]

I mean, that was awe inspiring for all of us. But you are eminently qualified because you have done it on the municipal level, you have done it on the State level, and now you are looking at the situation up here.

It has been a great first hearing and I look forward to working alongside you in the coming hearings.

I would like to also submit for the record, and we have not had time to answer all these questions, I would like to submit a question for all of you to answer in the coming weeks just on something that I got off of *Government Executive* magazine. It is March 23, 2001. The headline says, "Better Pay Will Not Solve Tech Worker Shortage," and it says the top five reasons reasonably paid techies stay at jobs are, (1) good management, (2) good work environment, (3) challenging work, (4) flexible work arrangements, and (5) training—the very thing you said that we did not get a chance to discuss today. But I would like to submit this for record, without objection, and if you all could just grade the Federal Government on these five areas in the coming weeks, I think that would be helpful.

[The information of Hon. Joe Scarborough follows:]

#### RESPONSE TO QUESTION FOR THE RECORD BY CHAIRMAN SCARBOROUGH

Mr. Lieberman. We agree with the article's premise that factors other than pay alone are important to Federal employees, both military and civilian. Regarding grades for the Federal Government in the five areas mentioned by the author, however, we are hesitant to generalize beyond those parts of the DOD workforce that we have evaluated recently from a personnel management standpoint or that belong to the job series used in our office. We also believe there are drastically different degrees of workforce issue awareness and workforce management effectiveness across the many organizations that comprise the DOD. Finally, numerous actions

began over the last year or two that are intended to address recruiting and retention problems, so any performance grades given at this time may not capture the effects of those initiatives.

Those caveats aside, we offer the following observations:

*Management.* Managing a workforce during a prolonged period of downsizing is extremely difficult, but the lack of a strategic plan for the DOD civilian workforce throughout the past decade has made the situation worse. The Department has yet to demonstrate that, across the board, it has any particular plan for the civilian workforce other than to make additional arbitrary cuts. On the military side, the Secretary of Defense has raised the provocative question of whether the traditional “up or out” promotion and retention policy still makes sense.

*Work Environment.* The DOD can compete favorably with other organizations in terms of work environment for civilian employees, except that constant public disparagement of Government workers has a wearing effect on employee morale. The Department needs to do more in terms of expressing confidence in its civilian workforce. In addition, the instability and uncertainty created by seemingly never ending talk and rumor of further downsizing, restructuring and outsourcing make it difficult to maintain a positive work environment. Achieving a strategic plan that lays out a clear roadmap for what lies ahead would greatly help. On the military side, the DOD has recognized the severe degradation of the work environment caused by very high operating tempo, underinvestment in housing and other facilities, and frustrating shortages of materiel.

*Challenging Work.* Overall, DOD ranks high in terms of offering interesting work to both civilian and military personnel.

*Flexible Work Arrangements.* We have not reviewed this matter and have no basis for comment, except to note that the use of alternative work schedules and other flexible arrangements appears fairly widespread.

*Training.* The Department has acknowledged that much more needs to be done to improve both civilian and military training.

Mr. SCARBOROUGH. Thank you again. I appreciate it.

Senator VOINOVICH. We again thank the witnesses and thank Members of the House and Senate that have been here with us. The hearing is adjourned.

[Whereupon, at 12:10 p.m., the Subcommittees were adjourned.]



## A P P E N D I X

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### PREPARED STATEMENT OF HON. ELIJAH E. CUMMINGS

Thank you, Mr. Chairman.

I am please to be here with my colleagues from the House Civil Service Subcommittee and the Senate Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia. As the former Ranking Member of the Civil Service Subcommittee, I know the importance of bipartisanship and forming good working relationships with our friends in the Senate.

The focus of today's hearing: How the human capital crisis is affecting the national security, is vitally important. In recent years, military services have struggled to meet recruiting goals. The State Department has struggled to recruit and retain Foreign Service Officers. Sadly, the thought of "serving our country" is not enough to lure people to the Departments of Defense and State. With the attraction of higher salaries and competitive benefit packages, it is not surprising that Federal agencies are finding it difficult to keep a talented workforce.

It is imperative that we examine the Federal government's efforts to recruit recent college graduates and their retention and training efforts.

Human capital reforms will be necessary as Federal employees are aging and nearing retirement. In a recent interview, the new director of the Office of Management and Budget (OMB) stated that Federal agencies are struggling to hire qualified college graduates at a time when a large majority of their Federal workers are nearing retirement.

The Federal Government faces the great challenge of keeping a qualified and well-trained workforce. Federal agencies must offer enhanced technology training and higher wages. Later this year, I will reintroduce the Federal Workforce Digital Access Act (FDWA) that proposes to provide a home computer and Internet access to permanent Federal employees, who complete one year of employment. Additionally, I support Senator Sarbanes' effort to ensure civil service employees receive a pay raise similar to the pay raise given to our men and women in the military.

I agree with Senator Voinovich that we must do all that we can do to empower Federal employees by creating a workplace where employees can efficiently use their talents and skills to make a difference.

I look forward to hearing from our witnesses.

Thank you.

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**Statement of the Hon. James R. Schlesinger and Admiral Harry D. Train (USN, Ret.) for the U.S. Commission on National Security/21<sup>st</sup> Century, before a Joint Session of the Senate Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia and the House Subcommittee on Civil Service and Agency Organization, March 29, 2001**

Mr. Chairmen,

Thank you for inviting us to testify before your sub-committees. As you know, the U.S. Commission on National Security/21<sup>st</sup> Century has taken very seriously the problems that this hearing is concerned with today, specifically, "The National Security Implications of the Human Capital Crisis." Let me be specific: The Commission's final report concludes: "As it enters the 21<sup>st</sup> century, the United States finds itself on the brink of an unprecedented crisis of competence in government. The maintenance of American power in the world depends on the quality of U.S. government personnel, civil and military, at all levels. We must take immediate action in the personnel area to ensure that the United States can meet future challenges."

Although the Commission's mandate involved a review of the entire of U.S. national security apparatus, the 14 Commissioners believe the issue of human capital to be so important that it comprises one of only five major sections in the report. In that section entitled "The Human Requirements for National Security," the Commission details a range of problems this nation faces with the process of Presidential appointments, the Civil Service, the Foreign Service, and military personnel in the decades ahead. It recommends solutions for those problems, and notes that other proposals for the reform of the structures and processes of the national security apparatus cannot fully succeed unless personnel issues are faced and deficiencies remedied.

In other words, it is the Commission's view that fixing personnel problems is a *precondition* for fixing virtually everything else that needs repair in the institutional edifice of U.S. national security policy.

We would be remiss if we did not point out that other parts of the Phase III Report deal with personnel deficiencies, too. For example, the section of the Report entitled "Recapitalizing America's Strengths in Science and Education" is about the national security implications of deficiencies in the management of science policy and education.

As to science policy, the Report notes that the U.S. Government does not follow any coherent or systematic process for determining how many and what kinds of scientific and engineering personnel it needs. We recommend that the Administration and the Congress devise such a process, for having the right numbers and the right mix of competent scientists and engineers in government service will become more, not less, important in the years ahead.

Our report notes, as well, the need to establish a more competitive and productive environment for the spending on research and development for science and technology. To create such an environment we need to do a better job of inventory stewardship for the nation's science and technology assets. The logic here is simple: It is not possible to target effectively dollars and energy to the most rewarding research areas if we do not know which areas those are. The most

important of this country's assets in science and technology are highly-trained people, a significant number of them nowadays being non-U.S. nationals. As we move increasingly into a knowledge-based economic era, we need to monitor more efficiently our pool of scientific and technological talent so that we can invest wisely in future American innovators and protect proprietary U.S. science and technology assets.

As for education, the Report emphasizes the looming teacher shortage the nation faces, and particularly the shortage of qualified teachers of science and mathematics at the K-12 level. Shortages of elementary and secondary school science and math teachers will contribute to future shortages of trained U.S. nationals who will become professionals in scientific, engineering, and a variety of technical fields. As we all recognize, such shortages could have a significant negative impact on both U.S. economic vitality and specifically on national security posture.

In other words, the Commission takes the matter of personnel quality seriously not only with respect to national security components in government, but also with regard to the non-government science and technology sectors. The Phase III Report makes several recommendations on these broader issues, but we focus today on the four governmental areas noted just a moment ago: the Presidential appointments process, the Civil Service, the Foreign Service, and military personnel systems.

While these four areas have their own specific problems, they share certain broad challenges in common. Most important, there is a declining orientation toward government service as a prestigious career, and we find this deeply troubling. One source of this decline is that the sustained growth of the U.S. economy has created private sector opportunities with salaries and advancement potential well beyond those provided by the government. This has a particular impact in shaping career decisions in an era of rising student debt loads.

But the problem is not just about money. In government, positions of responsibility and the ability to advance are hemmed in by multiple layers, even at senior levels, while in the private sector responsibility and advancement often come more quickly. Rigid, lengthy, and arcane government personnel procedures—including those germane to hiring, compensation, and promotion—also discourage some otherwise interested applicants.

For example, the length of the hiring process inhibits many qualified Foreign Service applicants from accepting job offers. Highly-qualified and talented people are not inclined to wait in uncertainty for a year or more while the government makes up its mind when they can be working at equally rewarding private sector jobs in a week or two. We simply have to make the government act smarter in the process of employing people.

Another problem is that there is less of a national threat to entice people into public service than there was in the Cold War. Careers in government no longer seem to hold out the prospect for highly regarded service to the nation. Meanwhile, the private and non-profit sectors now offer opportunities that appeal to idealistic Americans who, in an earlier time, might have been attracted to government service. Government has to compete with the private sector not only in terms of salary and benefits, then, but in terms of the intrinsic interest of the work and the sense of efficacy and fulfillment that work bestows.

At the same time, the trust that Americans have in their government is buffeted by cynicism. Consistent criticism of government employees and agencies by politicians and the press has magnified public dissatisfaction and lowered regard for the worthiness of government service. Political candidates running “against Washington” have fueled the impression that all government

is prone to mismanagement, and invariably provides inferior services to those of similar organizations in the private sector. This is *not* the case, but virtually every Presidential candidate in the past thirty years has employed rhetoric criticizing “the bloated bureaucracy” as a means of securing “outsider” status in the campaign. The cumulative effect of this rhetoric on public attitudes toward the government has been significant and very negative.

The effect of these realities, taken together, on recruiting and retention problems is manifest. Not only do fewer successful applicants actually enter the Foreign Service, the number of people taking the Foreign Service entrance exam is down sharply, too. Meanwhile, the State Department shows signs of a growing retention problem. Fewer applying, fewer successful applicants taking jobs, fewer mid-career officers staying—no wonder we worry about the overall quality of the future U.S. diplomatic corps.

The national security community also faces critical problems recruiting and retaining scientific and information technology professionals in an economy that has made them ever more valuable. The national security elements of the Civil Service face similar problems, and these problems are magnified by the fact that the Civil Service is doing little recruiting at a time when a retirement wave of baby-boomers is imminent.

For the armed services, these trends have widened the cultural gap between the military and the country at large that continues to be affected by the abolition of the draft in the 1970s. While Americans admire the military, they are increasingly less likely to serve in it, to relate to its real dangers and hardships, or to understand its profound commitment requirements. Military life and values are increasingly unknown to the vast majority of Americans.

The military’s capabilities, professionalism, and unique culture are pillars of America’s national strength and leadership in the world. Without a renewed call to military service and systemic internal personnel reforms to recruit and retain quality people, the leadership and professionalism necessary for an effective military will be in jeopardy. We must never forget that, as valuable as weapons systems and high-tech communications are to future warfare, they pale in significance beside the quality of the people responsible for their employment.

We would like to summarize for you now the Commission’s recommendations in the four areas outlined earlier. We cannot do full justice, however, to the Report itself, so we ask, Mr. Chairmen, that the relevant sections of the Commission’s Phase III Report be appended to this statement for the record.

Just as each of these four areas has both particular problems and something in common with the other three, so the Commission’s recommendations begin with an attack on the common problem.

First and foremost, the Commission believes that *a national campaign to reinvigorate and enhance the prestige of service to the nation* is necessary to attract the best Americans to military and civilian government service. The key step in such a campaign must be to revive a positive attitude toward public service. It has to be made clear from the highest levels that frustrations with particular government policies or agencies should not be conveyed through the denigration of federal employees *en masse*. Calls for smaller government, too, should not be read as indictments of the quality of government servants. Instead, specific issues should be addressed on the merits, while a broader campaign should be waged to stress the importance of public service in a democracy.

Implementing such a campaign requires strong and consistent Presidential commitment, Congressional legislation, and innovative departmental actions throughout the federal government. What the President says, and how he says it, matters. Moreover, only the President can shape the Executive Branch agenda to undertake the changes needed in U.S. personnel systems. Meanwhile, Congress must enact a series of legislative remedies, but it must also change its own rhetoric to support national service. It must work with department heads and other affected institutions to ensure that a common message is conveyed and, most important, that Executive departments and agencies have the flexibility they need to make real improvements.

Rhetoric alone, however, will not bring America's best talent into public service. The Commission believes that unless government service is made more professionally rewarding tomorrow's leaders will seek service elsewhere. Government needs high-quality people (civilian and military) with expertise in the social sciences, foreign languages, and humanities as well as in science, math and engineering. The decreased funding available for these programs from universities and foundations may threaten the ability of the government to produce future leaders with the requisite knowledge—in foreign languages, economics, and history to take several examples—to meet 21<sup>st</sup> century security challenges.

Therefore, the Commission proposes to extend scholarship and debt relief benefits to those social science, foreign language, and humanities students who serve the nation. We urge Congress to expand significantly the National Security Education Act (NSEA) of 1991 to include broad support for these fields in exchange for military and civilian service to the nation. In addition, the Commission urges the creation and passage of a National Security Science and Technology Education Act (NSSTEAA) that would focus on funding math, science, and engineering majors in exchange for K-12 teaching or government service (military or civilian). Details for both of these recommendations may be found in the Commission's Phase III Report, and we urge Members and their staffs to review them.

- With respect to the issue of Presidential appointments, we recommend the most urgent possible streamlining of the process by which we attract senior government officials. The ordeal that Presidential nominees are subjected to is now so great as to make it prohibitive for many individuals of talent and experience to accept public service.

The confirmation process is characterized by vast amounts of paperwork and many delays.

Conflict of interest and financial disclosure requirements have become a major obstacle to the recruitment of honest men and women to public service.

Post-employment restrictions confront potential appointees with the prospect of having to forsake not only income but work itself in the very fields in which they have demonstrated talent and found success. Unless we want to limit the pool of senior officials to those on the verge of retirement from professional life, we simply must do something about this now.

Meanwhile, a pervasive atmosphere of distrust and cynicism about government service is reinforced by the encrustation of complex rules based on the assumption that all officials, and especially those with experience in or contact with the private sector, are criminals waiting to be unmasked.

We therefore recommend the following:

*That the President act to shorten and make more efficient the Presidential appointee process* by confirming the national security team first, standardizing paperwork requirements, and reducing the number of nominees subject to full FBI background checks.

*That the President reduce the number of Senate-confirmed and non-career SES positions by 25 percent to reduce the layering of senior positions in departments that has developed over time.*

*That the President and Congressional leaders instruct their top aides to report as soon as possible on specific steps to revise government ethics laws and regulations.* This should entail a comprehensive review of regulations that might exceed statutory requirements and making blind trusts, discretionary waivers, and recusals more easily available as alternatives to complete divestiture of financial and business holdings of concern.

- An effective and motivated Foreign Service is critical to the success of U.S. foreign and national security policy. Yet, 25 percent fewer people are now taking the entrance exam compared to the mid-1980s, and, as we have already noted, fewer successful candidates are accepting employment and more mid-career officers are leaving. Those who stay complain of poor management and inadequate professional education. We therefore recommend that the Foreign Service system be improved by making leadership a core value of the State Department, revamping the examination process, and dramatically improving the level of on-going professional education.

Specifically, we urge a total end to the blindfolding policy of the Foreign Service's oral examination. We urge that a personnel float of 10-15 percent be built into the Foreign Service personnel system to allow for significant on-going professional education. This is a critical factor in retention, and it has been given short shrift for too long. We also recommend that the name of the Service be changed to the U.S. Diplomatic Service. This would avoid the misconception held by some Americans that the job of the Foreign Service is to work on the behalf of foreign interests.

- The Civil Service faces a range of problems from the aging of the federal workforce to institutional challenges in bringing new workers into government service to critical gaps in recruiting and retaining information technology professionals.

The aging problem is especially acute. The first of the post-World War II baby-boom generation turns 55 this year. A retirement wave that will continue for the next eighteen years will reach crisis proportions in many departments. Nearly 60 percent of the entire civilian workforce is eligible for early or regular retirement today. Within that overall figure, 27 percent of the career Senior Executive Service (SES) is eligible for regular retirement now; 70 percent will be eligible within five years. This wave is exacerbated by the small numbers of employees in their twenties and thirties in most agencies. When agencies such as the Department of Defense and those within the intelligence community chose to downsize through hiring freezes, they contributed inadvertently to this trend.

The Commission believes these problems can be turned into opportunities to adapt the civilian force to meet the new challenges of the 21<sup>st</sup> century if recruitment hurdles are eliminated, if the hiring process is made faster and easier, and if professional education and retention programs worthy of full funding by Congress are designed. Retaining talented information

technology workers, too, will require both greater incentives and the outsourcing of some IT support functions.

The national security component of the Civil Service calls for professionals with breadth of experience in the interagency process and with depth of knowledge about policy issues. To develop these, *we recommend the establishment of a National Security Service Corps (NSSC)* to broaden the experience base of senior departmental managers and develop leaders who seek integrative solutions to national security policy problems. Participating departments would include Defense, State, Treasury, Commerce, Justice, Energy, and the new National Homeland Security Agency that this Commission has proposed—the departments essential to interagency policymaking on key national security issues. While participating departments would retain control over their personnel, an interagency advisory group would design and monitor the rotational assignments and professional education that will be key to the Corps' success.

- With respect to military personnel, reform is needed in the recruitment, career management, compensation, and retirement systems. Otherwise, the military will continue to lose its most talented personnel, and the armed services will be left with a cadre unable to handle the technological and leadership tasks necessary for a world-class 21<sup>st</sup> century force. We do not want to go into detail here, but some of the data really are startling and deserve our attention.

The Navy is nine hundred pilots short of necessary levels, while the Air Force reports the largest peacetime pilot shortage in its history: 1,200 pilots short of operational requirements. The Air Force pilot loss rate is projected to double by 2002. Over the past ten years, the Army has experienced a 58 percent increase in the percentage of Captains voluntarily leaving the military before promotion to Major. High-quality junior officers are also leaving military service earlier. In 1987, 38 percent of the Army's West Point graduates left military service before ten years of active duty—the best retention rate among all Army commissioning sources. In 1999, 68 percent of West Point graduates left before the ten-year point, the worst retention rate among all Army commissioning sources. High-quality Lieutenant Colonels/Colonels and their Navy equivalents (O-5s and O-6s who have had Department/Battalion/Squadron/Ship-level commands in their careers) are leaving early, as well. The Navy reports that both post-department officers and post-squadron Commanders are separating at a rate *three times higher* than a decade ago. The effect of these trends on our future military are not just cause for concern, they are terrifying.

Beyond the significant expansion of scholarships, debt relief programs, and significant career management reforms we call for in other domains, we recommend substantial enhancements to the Montgomery GI Bill and strengthening recently passed legislation that supports enhanced service benefits—including transition, medical, and homeownership—for qualified veterans. The GI Bill should be restored as a pure entitlement, be transferable to dependents after a career service member completes 15 years of service, and should equal, at the very least, the median tuition cost of four-year U.S. colleges. Payments should be accelerated to coincide with school term periods and be indexed to keep pace with annual college cost increases.

In addition, Title 38 authority for veterans benefits should be modified to restore and improve medical, dental, and VA home ownership benefits for all who qualify, but especially for career and retired service members. Taken as a package, such changes will help bring the best people into the armed service and persuade quality personnel to serve longer in order to secure greater rewards for their service.

While these enhancements are critical they will not, by themselves, resolve the quality recruitment and retention problems of the Services. The problems are structural. The personnel

system was set up over a half century ago, at a time when large numbers of strong young men were needed temporarily. We now have a military that requires more experienced technical specialists to stay on for longer periods. Fifty years ago there were only so many officer slots for soldiers who had grown well beyond their physical peak. Today, the military needs a much wider array of technical specialists, and it does not matter if their hair is thinning. But the rigidities of the current personnel system work in the opposite direction. They leave the military without the flexibility to choose non-traditional age groups to address future human resource needs.

We therefore recommend significant modifications to military personnel legislation governing officer and enlisted career management, retirement, and compensation—giving Service Secretaries more authority and flexibility to adapt and manage their overall military human resource requirements. This should include flexible compensation and retirement plans, exemption from “up-or-out” mandates, and reform of personnel systems to facilitate fluid movement of personnel. If we do not decentralize and modernize the governing personnel legislation, no military reform or transformation is possible.

We also call for an executive-legislative working group to monitor, evaluate and share information about the testing and implementation of these recommendations. With bipartisan cooperation, our military will remain one of this nation’s most treasured institutions and our safeguard in the changing world ahead.

Mr. Chairmen, in conclusion, let us only add that we are aware that many of our recommendations will cost money. On the other hand, many of our recommendations in others areas will save money. We have not taken an accountant’s attitude to our task; we have not tried to “balance the books.” Where our recommendations save money, we consider it a second order benefit. Where they cost money, we consider it an investment in a *first* order national priority.

The Commission has undertaken to specify in greater detail than appears in our final Report the fiscal implications and possible implementation schedules for the recommendations we have made. We are ready to share these details with you and your staffs upon request.



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United States General Accounting Office

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GAO

Testimony

Before the Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia, Senate Committee on Governmental Affairs and the Subcommittee on Civil Service and Agency Organization, House Committee on Government Reform

For Release on Delivery  
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## HUMAN CAPITAL

# Major Human Capital Challenges at the Departments of Defense and State

Statement of Henry L. Hinton, Jr, Managing Director,  
Defense Capabilities and Management



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GAO-01-565T

Chairman Voinovich, Chairman Scarborough, and Members of the Subcommittees:

I appreciate the opportunity to appear before this joint hearing to discuss the human capital challenges confronting two key agencies in the national security establishment. As you are aware, GAO has been a leading promoter of more systematic attention toward human capital issues. I am particularly gratified to come before your Subcommittees as you have been committed advocates of our efforts, sponsoring much of our work in this area. The leadership provided by your Subcommittees has been especially important in focusing attention on the federal government's human capital challenges and in helping to lay the foundation for eventual human capital legislative reform. Senator Voinovich, your recent report, entitled "Report to the President: The Crisis in Human Capital," captures in compelling terms both the urgency of the government's human capital problems and the opportunity that now exists to make the federal government's "people management" a top priority for both Congress and the new administration.<sup>1</sup>

As you know, the U.S. Commission on National Security in the 21<sup>st</sup> Century has focused a key part of its analysis on human capital issues. The magnitude of the federal government's challenge in the human capital arena will take the dedicated efforts of many to catalog all the problems and correct the past neglect of "people management." The Congress, the Office of Management and Budget (OMB) and the Office of Personnel Management (OPM), special commissions and advisory groups, oversight agencies such as GAO and the inspector general offices, and the individual agencies themselves all have a role to play.

Over the past two years, our work on the major management challenges and program risks across the government has identified human capital as a primary factor affecting current and future agency performance. My statement today will address (1) the general issue of human capital issues in the federal government and (2) specific human capital challenges in the Departments of Defense and State.

#### SUMMARY

The human capital issues facing the Department of Defense and the Department of State are not fundamentally different from those facing other federal agencies today. In the wake of extensive downsizing over the last decade, agency workforces are experiencing significant imbalances in terms of shape, skills, and retirement eligibility, with the likelihood of a huge loss of personnel to retirement over the next few years and a resulting decline in the ability to accomplish agency missions. Yet, until recently, there has been very little action taken to address this problem.

While both the Department of Defense and the Department of State are beginning to address their human capital issues, each has a considerable way to go. Our review of their most recent performance reports and performance plans identified several areas

<sup>1</sup> *Report to the President: The Crisis in Human Capital*, report prepared by Senator George V. Voinovich, Chairman, Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia, Committee on Governmental Affairs, United States Senate, December 2000.

where additional efforts are needed. Although the specific problems in each agency are somewhat different, they all have a common origin—the lack of an overall strategic approach to the management of the workforce. Agencies must step up their efforts to identify current and future workforce needs, assess where they are relative to those needs, and develop strategies for addressing any related gaps. Such efforts should address workforce shape, skills, knowledge, and succession planning.

#### HUMAN CAPITAL: A GOVERNMENTWIDE HIGH RISK AREA

Strategic human capital management is a pervasive challenge throughout the federal government. The human capital problems of the Department of Defense and the Department of State can be seen as part of a broader pattern of human capital weaknesses that have eroded mission capabilities across the federal government. As you know, we recently designated human capital as a governmentwide high-risk area.<sup>2</sup> After a decade of government downsizing and curtailed investments in our vital “people” assets, it has become increasingly clear that today’s federal human capital strategies are not appropriately constituted to adequately meet current and emerging needs of government and its citizens in the most effective, efficient, and economical manner possible. While legislation and other actions have been put in place over the last decade to address most of the major management areas, such as financial management, information technology, and results-oriented management, human capital remains as the critical link to reforming and modernizing the federal government’s management practices. While my focus today will be on specific human capital issues, it is important to note that human capital has a pervasive impact on the organization, affecting virtually every aspect of operations. To a certain extent, any problem or management challenge that exists in an organization is likely to have some connection to human capital. Simply stated, human capital problems often lead to programmatic problems and increased risks.

Our work has found human capital challenges across the government in four key areas:

- Strategic human capital planning and organizational alignment,
- Leadership continuity and succession planning,
- Acquiring and developing staffs whose size, skills, and deployment meet agency needs, and
- Creating results-oriented organizational cultures.

Both State and Defense are facing significant challenges in each of these areas.

The Comptroller General recently testified before the Subcommittee on National Security, Veterans Affairs, and International Relations of the House Committee on Government Reform.<sup>3</sup> He noted there were several areas where action was needed to shape an efficient and effective federal government for the 21<sup>st</sup> century, and help us meet the challenges to the well-being and financial security of the American people, address

<sup>2</sup> *High Risk Series: An Update* (GAO-01-263, January 2001).

<sup>3</sup> *Major Management Challenges and Program Risks: Departments of Defense, State, and Veterans Affairs* (GAO-01-492T, March 7, 2001).

security threats facing our nation, and deal with the issues raised by global interdependence. One of the primary actions he cited was the urgent need to revamp the federal government's entire strategic approach to human capital (people) management before the erosion of government's capacity to perform more dramatically undermines agencies' abilities to efficiently and effectively serve the American people. In Senator Voinovich's *Report to the President*, he noted that the federal government was in dire need of a unified strategy to build and maintain a world-class civil service. These challenges, many of which have been long-standing in scope, also underscore the critical role that the principles of performance-based management, as embraced in the Government Performance and Results Act (GPRA), can play in successfully providing the products, services, and results that taxpayers expect.

#### HUMAN CAPITAL ISSUES IN THE DEPARTMENT OF DEFENSE

The last few decades of the 1900s have seen a dramatic shift in the position occupied by the Department of Defense vis-à-vis the rest of the government. Defense spending currently represents about 16 percent of the federal budget, down from about 50 percent in 1962. The DOD military and civilian workforce has been reduced by more than 1 million personnel from a high of 4.1 million in 1987 to about 3 million today. While it has come down considerably in size and proportion of the budget, it is still by far the largest employer in the government. Because it is the largest employer of federal employees in the competitive civil service, how DOD approaches human capital management sends important signals about trends and expectations for federal employment across government. Moreover, the role that DOD's workforce plays in support of our national security makes DOD's approach to managing its people a matter of fundamental public interest.

DOD uses the term "total force" to refer to the different categories of workers that it uses to accomplish its mission. The total force includes military personnel, both active duty and reserve, federal civilian personnel, and private-sector contract personnel. Each plays a vital role in our national defense, and each has undergone considerable change in roles over the last part of the 20<sup>th</sup> century. Since the end of the Cold War, the nation has become increasingly reliant upon the reserves and National Guard for performing various defense missions. The roles of the civilian and contractor workforce have also expanded, now including participation in combat functions. For example, available DOD reports show that over 5,000 DOD civilian employees and nearly 9,200 contractor personnel voluntarily deployed to the Persian Gulf area to support the military forces during the Gulf War.<sup>4</sup>

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<sup>4</sup> *DOD Force Mix Issues: Greater Reliance on Civilians in Support Roles Could Provide Significant Benefits* (GAO/NSIAD-95-5, October 19, 1994).

Internal Department of Defense Studies Identify  
Human Capital Practices That Need to Be Updated

A number of recent DOD studies have identified some fundamental problems regarding the Department's management of its human capital. In 1997, the 8<sup>th</sup> Quadrennial Review of Military Compensation noted that personnel costs represent nearly 50 percent of the defense budget, yet leaders in the Department of Defense have no institution-wide process for systematically examining future human resource needs or for translating those needs into a coherent strategy that supports DOD's overall strategic plan.<sup>5</sup> In contrast, the Department's research, development, and procurement community—reflecting only 30 percent of the budget—uses a formal process and structure to present leaders with acquisition issues and solutions to support future operational needs.

Last year, the Defense Science Board task force reported a similar conclusion.<sup>6</sup> The task force report stated that:

“Today there is no overarching framework within which the future DOD workforce is being planned aside from the planning conducted within the military services and ad hoc fora in the Office of the Secretary of Defense. An overarching strategic vision is needed that identifies the kind of capabilities, and the changes in human resources planning and programs that will be required. In short, the Department's force concept—embodied in *Joint Vision 2010*—needs to be linked to manpower requirements for the total force, military and civilian, public and private. (p. viii)”

The task force voiced a concern that today's force is merely what was “left over” from the drawdown, and states that more deliberate civilian and military force shaping is needed. It went on to warn that unless the Department makes changes in its personnel and compensation systems, the force will be unprepared for 21st century needs; quality people will not stay in sufficient numbers, and those who do will lack necessary skills and experience.

The task force identified key issues now evident across the total defense force. Within the civilian workforce, they cited:

- The insufficient number of properly trained candidates in the pipeline, an aging workforce with little turnover and limited professional development opportunities;
- The lack of a continuing professional development program for career civilian employees;
- The need for an integrated personnel management plan that includes accounting for the increasing use of private sector personnel; and
- The long confirmation cycle for political appointees.

<sup>5</sup> Rewarding, Organizing and Managing People in the 21st Century: Time for a Strategic Approach (Report of the 8th Quadrennial Review of Military Compensation, June 30, 1997).

<sup>6</sup> *Final Report of the Defense Science Board Task Force on Human Resources Strategy* (Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, February 28, 2000).

Within the military, they identified:

- Recruiting challenges and training and first-term attrition in enlisted grades;
- Retention of experienced individuals to fill key leadership, specialty, and technical positions in the non-commissioned officer corps;
- Improving job satisfaction, retention, and commitment to service within the junior officer grades; and
- Retention and professional development of the “best and brightest” within the senior officer grades, including flag rank.

The task force went on to recommend that the Department of Defense establish a strategic human resources plan encompassing all elements of the total force: military, civilian, and private sector personnel.

Defense Beginning to Address Human Capital Challenges,  
But Has a Long Way To Go

Given the large number of military and civilian personnel within the Department, human capital management represents a huge challenge that impacts virtually every major activity. Human capital challenges are involved to some extent in each of the six high risk areas we identified—financial management, information technology, acquisition, contracting, support infrastructure, and logistics. For example, in testimony last year before the Subcommittee on Government Management, Information, and Technology, House Committee on Government Reform, I noted that the government now spends more for services than any other acquisition category.<sup>7</sup> This shift toward greater reliance on the private sector for professional, administrative, technical, and information management support will have a strong impact on the way in which human capital is used throughout the government, but particularly in DOD which is still the dominant purchaser in the federal community.

DOD is dealing with a variety of military personnel issues, such as shortages of junior officers for the career force, problems in retaining certain skills (such as intelligence analysts, computer programmers, aircraft mechanics, and pilots), and the military services’ failure to meet recruiting goals. The Department also faces significant challenges in managing its civilian workforce. The sizable reduction in civilian personnel since the end of the Cold War has led to an imbalance in shape, skills, experience, and retirement eligibility that is jeopardizing certain acquisition and logistics capabilities within DOD.

Many of the human capital problems that DOD is dealing with today are the result of its approach to downsizing in the early 1990s. While DOD’s approach to civilian force reductions was less oriented toward shaping the makeup of the workforce than was the approach it used to manage its military downsizing, it missed strategic planning opportunities in both arenas to move closer to a workforce that was balanced in terms of

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<sup>7</sup> *Federal Acquisition: Trends, Reforms, and Challenges* (GAO/T-OCG-00-7, March 16, 2000).

composition (active military, reserves, civilian employees, and contract personnel), skills, and experience.

### Military Personnel

DOD has encountered considerable difficulties in recent years in achieving its desired military strength. The military services have struggled to meet recruiting goals, with 3 out of 4 services having missed their recruiting goals in the last several years due to factors such as the robust economy, lower propensity to join the military, low civilian unemployment, and high college attendance. With its attrition rate at an all-time high, DOD continues to lose more than one-third of its enlistees before they successfully complete their first-term of service. The services face shortages among junior officers, and problems in retaining intelligence analysts, computer programmers, and pilots. Reduced accessions during the drawdown have resulted in smaller year-groups from which to retain personnel for the career force. While overall retention rates have continued to be adequate, retention in certain skills and grade levels has been problematic.

To improve the results of its recruiting efforts, DOD has added more recruiters, increased advertising budgets, and increased enlistment bonuses. Notwithstanding these efforts, it is not clear what aspects of military service can be improved in order to increase retention in areas that are having problems. Additionally, DOD does not have a mechanism for determining which of its actions in the recruiting arena are responsible for its recent improvement in achieving its goals.

Much of DOD's force shape problems in the active duty military stem from the way in which it chose to absorb the force reductions at the end of the Cold War. DOD gave priority to achieving voluntary reductions and reducing new accessions. Between 1987 and 1992, active duty military end-strength levels decreased by 17 percent, while over the same period, the number of new recruits decreased by 35 percent.<sup>8</sup> Our work at the beginning of the drawdown found that the services tended to use cut-backs on new recruits as a preferred downsizing tool because such actions could be implemented quickly and were seen as less disruptive to those members already in the force.<sup>9</sup> However, over time, this approach can create significant distortions in the shape and experience of the force.

We recently reviewed DOD retention data and found that aggregate retention and continuation rates in 1996-98 (after the drawdown) were not significantly different from those before the drawdown (1988-90).<sup>10</sup> Aggregate measures of retention, however, mask significant reductions that occurred among specific groups of military personnel in

<sup>8</sup> Military Downsizing: Balancing Accessions and Losses is Key to Shaping the Future Force (GAO/NSIAD-93-241, September 30, 1993).

<sup>9</sup> Enlisted Force Management: Past Practices and Future Challenges (GAO/NSIAD-91-48, January 22, 1991).

<sup>10</sup> *Military Personnel: Systematic Analyses Needed to Monitor Retention in Key Careers and Occupations* (GAO/NSIAD-00-60, March 8, 2000).

different career stages and occupational specialties. Retention rates at the occupational level showed reductions in retention rates of 10 percent or more occurred among certain segments of the enlisted population. Two occupational areas involving technical skills—communications and intelligence and electrical and mechanical equipment repair—accounted for the majority of occupations with substantial enlisted retention rate reductions. The services have recently reported growing retention problems among pilots. The Air Force reported that the cumulative continuation rate among pilots (the likelihood that pilots who complete 6 years of service would go on to complete 11 years) dropped 41 percent from 1995 through 1998 (from 87 to 46 percent). Similarly, the Navy reported that cumulative aviation continuation rates decreased from about 50 percent in 1996 to about 32 percent in 1998. We are in the process of reviewing data from the 1999 DOD Survey of Active Duty Personnel to determine how the views, experiences, and retention intent of personnel in critical occupations differ from that of the rest of the force.

#### Civilian Personnel

DOD has undergone a sizeable reduction in its civilian workforce since the end of the Cold War, and additional reductions are expected at least through fiscal year 2005. Between fiscal years 1989 and 1999, DOD reduced its civilian workforce by about 400,000 positions, from approximately 1,117,000 to 714,000—a 36-percent reduction. President Clinton’s fiscal year 2001 budget request projected additional reductions in DOD’s civilian workforce down to a level of 637,500 by fiscal year 2005—a cumulative reduction of nearly 43 percent from the fiscal year 1989 level.

DOD’s approach to civilian downsizing in the early years relied primarily on voluntary turnover and retirements and varying freezes on hiring authority to achieve force reductions. DOD also used existing authority for early retirements to encourage voluntary separations at activities facing major reductions-in-force. The fiscal year 1993 National Defense Authorization Act authorized a number of transition assistance programs for civilian employees, including financial separation incentives—“buyouts”, to induce the voluntary separation of civilian employees. DOD has credited the use of these separation incentives, early retirement authority, and various job placement opportunities for enabling it to avoid nearly 200,000 involuntary demotions and separations.

While the tools available to DOD to manage its civilian downsizing helped mitigate the adverse effects of force reductions, DOD’s approach to civilian force reductions was not really oriented toward shaping the makeup of the workforce. During our work on the early phases of the DOD downsizing, some DOD officials voiced concerns about what was perceived to be a lack of attention to identifying and maintaining a balanced basic level of skills needed to maintain in-house capabilities as part of the defense industrial base.<sup>11</sup> “Institutional memory” provided by career civilians is particularly important in

<sup>11</sup> *Defense Force Management: Expanded Focus in Monitoring Civilian Force Reductions Is Needed* (GAO/T-NSIAD-92-19, March 18, 1992) and *Defense Force Management: Challenges Facing DOD As It Continues to Downsize Its Civilian Work Force* (GAO/NSIAD-93-123, February 12, 1993).



DOD because of the frequent rotation of military personnel and the short tenure of the average political appointee.

The consequences of the lack of attention to force shaping can be seen in the current age distribution of the DOD civilian workforce in comparison to the distribution at the start of the drawdown. There has been a strong shift toward an older workforce. Today's workforce is older and more experienced, but, not surprisingly, 58 percent of the workforce will be eligible for early or regular retirement in the next five years. Since 1989, there has been a 69 percent drop in the number of civilians with less than five years of service, but only a 4 percent drop in the number of civilians with 11-30 years of service. As of September 1999, only 6.4 percent of DOD's civilian workforce was under the age of 31, compared to about 17 percent in 1989.

The net effect is a workforce that is not balanced by age or experience and that puts at risk the orderly transfer of institutional knowledge. Although we cannot say what the appropriate balance between younger and older employees should be, the continuing increase in the number of retirement-age employees could make it difficult for DOD to infuse its workforce with new and creative ideas and develop the skilled civilian workers, managers, and leaders it will need to meet future mission requirements.

The problems I just described are even more severe in certain areas, such as acquisition. This is a part of the workforce that the United States has relied upon to maintain the technological superiority that plays an essential role in our national security strategy. Our nation's warfighters will continue to depend on technologically superior weapon systems provided by the acquisition system. Congress has also been concerned with the human capital issues in the acquisition workforce. For example, the Defense Authorization Act for Fiscal Year 1996 (P.L. 104-106), among other requirements, required DOD to submit a plan for a 25 percent reduction in the number of acquisition personnel employed at DOD's acquisition organizations by the beginning of fiscal year 2001. That plan fell short of what was needed in that it did not clearly define what constitutes the acquisition workforce and it did not ensure that organizations and functions were appropriately adjusted to achieve better program outcomes and not just "hollowed out."<sup>12</sup>

According to the Acquisition 2005 task force, the rate of reduction in the civilian Acquisition Workforce has substantially exceeded that of the rest of the DOD workforce.<sup>13</sup> From September 1989 to September 1999, the civilian Acquisition Workforce has been reduced by almost 47 percent. This compares to a 37 percent decrease in the total DOD civilian workforce and a nearly 17 percent in the total federal civilian workforce. Eleven consecutive years of downsizing have produced serious imbalances in the skills and experience of the highly talented and specialized civilian acquisition workforce, putting DOD on the verge of a retirement-driven talent drain.

<sup>12</sup> *Defense Acquisition Organizations: Linking Workforce Reductions With Better Program Outcomes* (GAO/T-NSIAD-97-140, April 8, 1997).

<sup>13</sup> *Shaping the Civilian Acquisition Workforce of the Future* (Final Report of the Acquisition 2005 Task Force to the Under Secretary of Defense, Acquisition, Technology, and Logistics and the Under Secretary of Defense, Personnel and Readiness, October 2000).

More than 50 percent of DOD's civilian Acquisition Workforce will be eligible to retire by 2005, and in some occupations, half the current employees will actually be gone by 2006.

Perhaps one of the more serious cases is the example that Senator Voinovich cited in his recent *Report to the President*. That case involved Wright-Patterson Air Force Base in Dayton, Ohio, headquarters of the Air Force Materiel Command, which employs over 10,000 civilian federal workers. It is an excellent example of the aging and skills imbalance currently affecting the defense workforce. Demographically, 60 percent of Wright-Patterson's civilian employees will be eligible for either early or regular retirement by 2005. Over and above the problem of continuity and succession, the Wright-Patterson example also demonstrates a growing skill imbalance among DOD's engineering workforce as the need for new skills emerge in areas such as space operations, lasers, optics, advanced materials, and directed energy fields.

#### GPRA Reports Identify Human Capital Issues at Defense

The strategic planning requirements of the Government Performance and Results Act provide a useful framework for agencies to integrate their human capital strategies with their strategic and programmatic planning—and in particular, to identify the workforce size, skills mix, and deployment needed for mission accomplishment and to create strategies to fill the gaps. However, while the agencies' fiscal year 2001 annual performance plans all included at least some discussion of human capital, the discussions varied widely in scope and specificity. In reviewing DOD's fiscal year 1999 GPRA performance report and fiscal year 2001 performance plan, we found several management challenges associated with human capital that were not adequately addressed.<sup>14</sup>

- One of DOD's key agency outcomes is to obtain military forces that are adequate in number, well qualified, and highly motivated. However, DOD's performance measures do not fully address the extent to which U.S. military forces are highly motivated or DOD's efforts to develop military personnel.
- The performance indicators used to assess tempo—the pace of operations for people and equipment—vary by service. However, they do not present a complete picture of tempo from the standpoint of the individual service member. Tempo is relevant to maintaining trained and ready forces because it has been cited as a reason for personnel leaving the military. Consequently, what is most relevant to service personnel and their families is the extent to which the individual is required to be away from home, rather than the more indirect measure of the extent to which units are deployed.
- DOD's stated combat readiness objective is aimed at being ready to fight and win two major theater wars or to conduct multiple operations other than war. However, its performance report and plan do not provide a complete picture of the forces and

<sup>14</sup> *Observations on the Department of Defense's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan* (GAO/NSIAD-00-188R, June 30, 2000).

performance required to accomplish this and whether the desired objective is being achieved. For example, in its performance report and plan, DOD included measures for the level of combat forces, but not for support forces, although the report recognizes the existence of support force shortfalls and discusses Army plans for correcting them. As another example, the report does not discuss the long-standing training and readiness problems of the Army National Guard's 15 Enhanced Brigades.

- DOD has identified specific recruiting goals representing the projected number of new personnel needed each year to maintain statutorily defined military end-strengths and the proper distribution of grade levels. But because retention varies monthly, recruitment goals are adjusted over the year. That process yields a revised DOD-wide annual goal against which recruiting is evaluated. However, because DOD only reports a composite recruitment goal, the measures can mask significant differences in performance across the services.
- Over the last several years we have identified early attrition of first-term active duty personnel as a key problem. About one-third of new recruits fail to complete their obligated tour of duty. However, the DOD performance plan has still not incorporated any goals dealing with the early attrition problem.
- DOD goals for enlisted retention provide a picture of overall retention by service and term of enlistment. However, such aggregate measures may mask variations in retention by occupational area (e.g., pilots, mechanics, intelligence analysts, and computer programmers) and skill levels (e.g., mid-career non-commissioned officers and junior officers). As such, their goals provide only a partial measure of the military's ability to retain adequate numbers of qualified personnel.

We view these shortcomings in DOD's performance report and plans as a result of the lack of an overall, strategic approach to human capital planning. Considering the enormous changes that the DOD total workforce has undergone and continues to undergo, and the external pressures and demands that virtually all federal departments and agencies are experiencing, taking a strategic view of human capital becomes ever more crucial to organizational results. DOD will need to build a solid foundation in strategic planning and organizational alignment, leadership and succession planning, recruiting and training the best possible talent, and establishing a performance culture.

#### HUMAN CAPITAL ISSUES IN THE DEPARTMENT OF STATE

As the lead agency representing U.S. interests overseas, the Department of State is vested with a wide range of responsibilities. The successful practice of U.S. diplomacy is essential to ensuring security at home, laying the groundwork for better jobs and a higher standard of living, providing a healthier environment, and assuring safe travel and the ongoing conduct of business abroad. To help manage these responsibilities, State maintains an international network of operations through a cadre of about 28,000 employees deployed across 260 diplomatic and consular posts worldwide. The Secretary

of State has stated that the core of our overseas presence is a talented, highly trained, dedicated, and motivated staff. Yet, over the last few years, a number of studies and reviews have identified a range of human capital challenges and problems within the State Department that raise concerns about how effectively State is managing its people.

Although State has traditionally attracted some of the nation's most talented people, a 1999 Department-wide study by McKinsey and Company concluded that an increasingly competitive job market and expanded private sector opportunities for geographic mobility have drawn potential Foreign Service Officers into other professions.<sup>15</sup> According to the study, the challenges that State faces in recruiting and retaining top-quality employees fall into several areas. These include the need for State to (1) establish a strong link between current performance and promotions, (2) improve the quality of life at overseas posts, and (3) improve the quality of its management.

In a November 1999 report, the Overseas Presence Advisory Panel also concluded that State needed to reform its human resource practices because it does not currently have the flexibility, resources, or strategic organization required to support its mission.<sup>16</sup> The panel visited 23 overseas posts in conducting its work and found that personnel matters topped the list of issues discussed. The panel reported that employees were dissatisfied with evaluation processes, career advancement opportunities, sensitivity to lifestyle issues, the degree of autonomy and responsibility offered by their positions, and the quality of management. Employees wanted, among other things, more training in languages, leadership, and management. The panel recommended that State develop a comprehensive human resource strategy based on a detailed statement of its mission, definition of the work to be done, and identification of personnel requirements; and, that State develop and implement a recruitment strategy designed to fulfill these needs. This approach of strategically aligning human capital with organizational goals and objectives is consistent with our studies of best practices used by high performance organizations, and similar studies done by other organizations.

Yet another recent assessment comes from the Independent Task Force on State Department Reform, chaired by Frank Carlucci.<sup>17</sup> The task force reported that resignations of foreign service generalists have doubled between 1994 and 2000, while resignations of foreign service specialists have quadrupled over the same period. They also note that declining applicant pools and rising attrition rates have left the State Department with workforce shortfalls, including a deficit of about 700 Foreign Service Officers, or nearly 15 percent of the requirement.

Failure to address human capital weaknesses in the Department of State could have a significant negative impact on U.S. interests. On June 15, 2000 State's Under Secretary for Management testified before the House Committee on International Relations. She

<sup>15</sup> *The War for Talent: Maintaining a Strong Talent Pool* (McKinsey and Company report to the State Department, 1999).

<sup>16</sup> *America's Overseas Presence in the 21<sup>st</sup> Century* (Overseas Presence Advisory Panel, 1999).

<sup>17</sup> *State Department Reform* (Report to the President by the Independent Task Force on State Department Reform, co-sponsored by the Council on Foreign Relations and the Center for Strategic and International Studies, January 2001).

noted that the Overseas Presence Advisory Panel's report cited a number of serious problems, including outmoded human resources practices and competition from the private sector for talented staff, that threatened the effectiveness of our overseas presence. She stated that the U.S. was face to face with a crisis of "diplomatic readiness" and that the country risked relying on an ineffective, "hollow" diplomatic force to defend America's interests. She cited serious potential consequences:

- less effective representation and advocacy of U.S. interests abroad;
- a loss of U.S. exports, investments, and jobs;
- inadequate political and economic information, leading to unexpected crises;
- less effectiveness in promoting democracy and the rule of law;
- a weakening of the fight against international terrorism and drug trafficking; and
- a failure to provide U. S. citizens traveling abroad with the assistance they need.

State is Beginning to Address its Human Capital Problems,  
But More Still Needs to be Done

We have not performed a comprehensive review of human capital issues at the State Department. However, according to State, it has begun to implement many of the recommendations stemming from the various studies. For example, it has started to develop a new, unified human resources strategy for the Department. The strategy will include a domestic and overseas staffing picture along with a 5-year projection based on State's overseas staffing model and bureau budget presentation documents. To improve the quality of life at its overseas posts, State has negotiated bilateral work agreements with 126 nations and is reviewing Department rules restricting employment opportunities for spouses of employees working overseas. It has also developed a pilot, 360-degree review process that will allow employees to give meaningful feedback on how their supervisors performed as leaders, managers, and mentors—in a nonthreatening and constructive fashion designed for personal and professional development. The Department also plans to expand leadership and management training, increase security training, reshape the reporting and policy functions, and examine ways of making the assignment process more responsive to management and employee needs. While these efforts indicate that State recognizes the importance of addressing human capital issues, much more still needs to be done.

According to the Office of Personnel Management, the State Department is using existing pay flexibilities to create incentives for learning.<sup>18</sup> It pays retention allowances ranging from 5 to 15 percent to certain information technology workers who obtain job-related degrees and certifications. OPM reported that after 1 year of operation, this program has helped to significantly reduce turnover and increase the skills base of State's information technology workforce.

Like other federal agencies, State's staffing situation is likely to be exacerbated by a significant increase in civil service retirements over the next decade. In testimony in 1999 before the Subcommittee on International Operations, Senate Foreign Relations

<sup>18</sup> Letter from OPM to GAO dated December 11, 2000.

Committee, the Under Secretary of State for Management projected that between 1998 and 2010, over 1,200 (24 percent) out of 5,000 Civil Service employees at State will become eligible to retire. This could undermine the continuity in State's senior level civil service management and policy positions. State officials are working on this continuity and succession problem and recently reported meeting their target for training employees in leadership and management to handle the expected increase in "baby boomer" retirements.

Issues related to the quality of life at overseas posts, career development opportunities, and talent management are hampering recruitment and retention of Foreign Service Officers. Efforts to determine the right size and composition of overseas posts have begun, but State faces challenges in aligning its workforce with new economic, political, security, and technological requirements. Also, staffing shortfalls are hampering counternarcotics programs and efforts to combat visa fraud.

#### GPRA Reports Identify Human Capital Issues at State

In reviewing State's fiscal year 1999 GPRA performance report and fiscal year 2001 performance plan, we found several management challenges associated with the hiring of staff that were not adequately addressed.<sup>19</sup>

- One of State's key performance goals associated with enhancing the ability of American citizens to travel and live abroad securely, involved reducing the number of parental child abduction cases per caseworker. However, State's performance report contained only a brief, generic explanation as to why it was unable to meet its target of 80 cases per officer. The report said simply that a request for additional full-time positions was not approved, hampering its ability to reduce caseload. State did not explain what efforts it made, if any, to reassign staff to work on this activity.
- State's performance plan listed improving the visa processing system and streamlining and developing a reasonable basis for visa workloads as a major management challenge. This area was also cited by State's Inspector General as a key management challenge. However, its plan did not contain any goals that specifically addressed issues identified by GAO and the Inspector General, such as insufficient staffing overseas.
- State noted it had met its target of increasing the number of authorized positions in selected global bureaus. However, since the Bureau of Personnel was not one of the six bureaus and offices included in the 2001 plan, there was no discussion of the Department-wide workforce plan or other agency-wide efforts to hire and retain staff with the needed skills. Separate submissions from various bureaus and offices will make it difficult to assess agency-wide progress.

<sup>19</sup> Observations on the Department of State's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan (GAO/NSIAD-00-189R, June 30, 2000).

A management challenge identified by the State Inspector General involved the adequacy of training and preparation for both Foreign Service and Civil Service personnel. Inadequate training can have a strong impact on the ability of the agency to perform its mission. For example, the Under Secretary of State for Management testified that in 1998, almost 40 percent of language designated positions were filled with officers lacking the requisite skills.<sup>20</sup>

State's Foreign Service Institute is the federal government's primary training institution for officers and support personnel of the foreign affairs community. In addition to State, the Institute provides training for employees from more than 40 other government agencies that have employees stationed abroad. State's Diplomatic Security Training Center also provides specialized training for diplomatic security agents to supplement training they receive from the Institute.

In recognizing the importance of training, the Under Secretary of State for Management noted that the Foreign Service Institute was offering more training than ever before. It was expanding language, area studies, and tradecraft training. They were also expanding "distance learning" allowing employees to receive training in the field as well as at the Institute.

State Department officials have indicated they are making progress toward identifying and measuring the knowledge and skills needed to support missions and goals. They told us that the agency completed a job analysis of its foreign service generalist corps in 1998 to identify the tasks and activities performed by those employees, as well as the human attributes and foreign language proficiency required for high performance. In addition, they reported completing an informal update of a baseline needs assessment for its diplomatic security agents in the mid-1980s. The agency officials also said that State had adopted OPM's leadership competencies for senior executives. State now measures employees' existing knowledge and skills by testing periodically for language proficiency, requiring certain employees to pass tests to fulfill agency certification requirements, and providing leaders access to 360-degree self-assessment instruments that allowed them to identify areas where they may need further development. New diplomatic security agents are required to achieve certain baseline test scores at the completion of their training programs. State is also developing competency-based models for several occupations—including passport agents, information technology support staff, and human resource management occupations—that will identify the competencies needed for high performance, measurement methods for determining the extent to which staff have these competencies, and suggested training courses and developmental activities.

State officials told us that they were also making progress implementing training programs that develop employees' knowledge and skills. They said the agency had an extensive training curriculum, which included profession-specific areas of study (e.g., acquisitions) and training on foreign languages, information technology, overseas

<sup>20</sup> Testimony of Under Secretary of State for Management Bonnie R. Cohen before the Subcommittee on International Operations, Senate Foreign Relations Committee, March 4, 1999.

briefings, leadership and management, and diplomatic security. The agency also required certain employees to complete specific training courses. For example, new diplomatic security agents received approximately 24 weeks of training in such areas as firearms, criminal investigations, and the law.

Department officials indicated that State was working on explicitly linking training to the agency's mission and strategic goals. They also reported that they had a variety of approaches to training evaluation in place or under development, such as feedback from units, end-of course evaluations, Inspector General reviews, and analysis of post-training assessment data.

CONCLUSION—HUMAN CAPITAL  
NEEDS TO BE VIEWED FROM A  
STRATEGIC STANDPOINT ACROSS THE GOVERNMENT

This brings me back to where I began. Longstanding inattention to the issue of human capital presents a significant risk across the federal government, not just at State and Defense. The Departments of State and Defense have each taken some action to begin addressing the various human capital challenges and problems that have been discussed here. However, much more needs to be done, not just by these two agencies, but by the entire federal government.

About a year ago, the Comptroller General testified before Senator Voinovich's Subcommittee.<sup>21</sup> In addressing the issue of managing human capital in the 21<sup>st</sup> century, he stated that there was no time to waste—that changes in the demographics of the federal workforce, in the education and skills required of its workers, and in basic federal employment structures and arrangements were all continuing to unfold. None of that has changed, and in fact we are getting closer to the time when the federal government will experience an unprecedented loss of experience and talent. While GAO, your two Subcommittees, and others have sounded the alarm, there is still a long way to go. Agency management must accelerate the adoption of a strategic perspective with regard to its workforce.

The Comptroller General also made the point that one of the emerging challenges for new presidential appointees will be to add an understanding of the importance of human capital issues to their traditional policy portfolios. Senator Voinovich has taken the lead in requesting that we develop questions that could assist the Senate in determining nominees' views on these vital issues.<sup>22</sup> However, as we have noted in other work, the typical political appointee requiring Senate confirmation serves for only around 2 years.<sup>23</sup> Given the customarily high turnover rate among political appointees, it is perhaps not surprising that most have tended to focus on managing their agencies for today, giving

<sup>21</sup> *Human Capital: Managing Human Capital in the 21<sup>st</sup> Century* (GAO/T-GGD-00-77, March 9, 2000).

<sup>22</sup> *Confirmation of Political Appointees: Eliciting Nominees' Views on Leadership and Management Issues* (GAO/GGD-00-174, August 11, 2000); *Potential Questions to Elicit Nominees' Views on Agencies' Management Challenges* (GAO-01-332R, January 18, 2001).

<sup>23</sup> *Political Appointees: Turnover Rates in Executive Schedule Positions Requiring Senate Confirmation* (GAO/GGD-94-115FS, April 21, 1994).



too little attention to preparing them for tomorrow. Consequently, the solution will not lie totally in the hands of political appointees. The continuity of effort needed to transform the government's management of its human capital must come from within the career force.

We developed a human capital self-assessment checklist based on our examination of current laws and regulations and our work with leading organizations in the private sector and among governments at the state and local levels as well as abroad.<sup>24</sup> This checklist was designed to help agency leaders conduct their own review of their human capital programs and provides a means for agency leaders to put the spotlight on improving the alignment of human capital management with strategic planning and core business practices. The checklist is not a set of performance criteria or measures. Instead, it is a framework or "line of inquiry" for federal agency leaders to follow in examining their agencies' human capital approaches and determining if they make sense in light of their organizations' missions, goals, and other needs and circumstances.

As we have previously reported, not all barriers to more effective strategic human capital management in the federal government stem from law or regulation.<sup>25</sup> Some arise out of long-standing perceptions about the limitations placed on agency officials' managerial prerogatives or basic philosophies about how people should be managed. In addition to assessing their human capital programs, agency management needs to be energetic and innovative in their use of the human capital flexibilities available to them. For example, potential flexibility in the "up or out" policies of the military and the foreign service can be examined as a way of minimizing the loss of personnel in whom a substantial investment has been made and who still have valuable contributions to make. Agencies need to use those flexibilities to create a performance culture that empowers and motivates employees while fostering responsibility, accountability, and fairness.

It is clear that OPM and OMB have substantial roles to play in fostering a more results-oriented approach to strategic human capital management across government. OPM has begun stressing to agencies the importance of integrating strategic human capital management into agency planning.<sup>26</sup> One publication that OPM developed, the *HR Innovator's Tool Kit*, includes nearly 100 tools and flexibilities available to agencies, such as recruiting bonuses and retention allowances.<sup>27</sup> To date, OMB has played a much more limited role in promoting strategic human capital management. However, OMB's role in setting governmentwide management priorities and defining resource allocations will be critical in inducing agencies to integrate strategic human capital management into their core business processes.

In addition, the audit and inspector general communities have a key role to play. In assessing agency and program performance, audit and inspection staffs should be

<sup>24</sup> *Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/GGD-99-179, September 1999).

<sup>25</sup> *Transforming the Civil Service: Building the Workforce of the Future—Results of a GAO-Sponsored Symposium* (GAO/GGD-96-35, December 20, 1995).

<sup>26</sup> See OPM's *Strategic Human Resources Management: Aligning With the Mission* (U.S. Office of Personnel Management, September 1999).

<sup>27</sup> *HR Innovators' Tool Kit* (U.S. Office of Personnel Management).

particularly alert to strategic human capital issues. The direct link that the inspectors general have to the top management of their respective agencies put them in a good position to reinforce the need to pay more attention to the “people” side of the organization as a primary vehicle for improving effectiveness, efficiency, and economy of agency operations. Federal agencies need to develop better performance measures and link them to their incentive and reward systems to foster improved organizational, team, and individual performance.

The key first step in improving federal agencies’ human capital management is for agency management to focus on people as a strategic asset. Workforce planning is an essential step. Agencies need to determine their current and future workforce needs, assess how their current and anticipated future workforce compares to these needs, and develop effective strategies to fill the gaps. It will not be easy and it will not be quick—but it must proceed right away. We are running out of time.

Chairman Voinovich, Chairman Scarborough, this concludes my prepared statement. I would be pleased to answer any questions you or other Members of the Subcommittees may have at this time.

(350065)

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MARCH 29, 2001

**STATEMENT**  
**BY**  
**ROBERT J. LIEBERMAN**  
**DEPUTY INSPECTOR GENERAL**  
**DEPARTMENT OF DEFENSE**  
**TO THE**  
**SENATE SUBCOMMITTEE ON OVERSIGHT OF**  
**GOVERNMENT MANAGEMENT, RESTRUCTURING AND**  
**THE DISTRICT OF COLUMBIA**  
**AND THE**  
**HOUSE SUBCOMMITTEE ON CIVIL**  
**SERVICE AND AGENCY ORGANIZATION**  
**ON**  
**NATIONAL SECURITY IMPLICATIONS**  
**OF THE HUMAN CAPITAL CRISIS**

**MARCH 29, 2001**

Chairmen and Members of the Committees:

I am pleased to be here today to discuss human capital management issues in the Department of Defense (DoD). My testimony today will focus on recent audit reports by my office on Defense programs with workforce issues. The condition of the DoD workforce is of particular concern to my office, because our auditing and investigative work constantly reinforces awareness that a properly sized, well-trained and highly motivated workforce is the best defense against fraud, waste and mismanagement. In addition, I have been privileged to serve in the Senior Executive Service for 21 years and currently manage about 1,200 civilian employees and about 30 military personnel, so I have personal experience on these matters. My opinions in this statement reflect those of the Office of the Inspector General, DoD, but not necessarily those of the Department.

I agree with the General Accounting Office, various recent internal DoD study groups, the U.S. Commission on National Security/21st Century, the Chief Information Officers Council, and other analysts that the Federal Government faces formidable civilian workforce challenges. For the DoD, human capital issues extend beyond the Civil Service workforce, affecting both active and reserve military personnel and many parts of the private sector on which we depend for national defense materiel and services. The issues that confront DoD pertain to the most basic elements of workforce management, including:

- determining the most efficient mix of outsourced versus in-house workload;
- determining the workforce size and skills composition needed to handle forecasted in-house workload;
- authorizing and funding sufficient positions to match workload;
- recruiting capable personnel;
- providing effective training throughout their careers;
- organizing the workforce efficiently;
- maintaining good morale;
- measuring and incentivizing productivity; and
- retaining skilled and experienced employees.

The seven audit reports that I am bringing to your attention today have a common theme, which is that eleven years of workforce downsizing, without proportionate workload reductions or productivity increases, have created or exacerbated mission performance problems across a wide spectrum of DoD organizations and civilian personnel specialties. In an age when organizational agility is the watchword for successful businesses, DoD has been anything but agile, when it comes to managing human capital. This is partially due to restrictive personnel management laws and regulations, but also to previous reluctance to innovate and lack of strategic planning regarding the civilian workforce.

**Report D-2000-088, DoD Acquisition Workforce Reduction Trends and Impacts, February 29, 2000**

We reported that the DoD cut its acquisition workforce from 460,156 people in September 1991 to 230,556 in September 1999, a reduction of 50 percent. (Further reductions were made in FY 2000 and 2001.) If workload had fallen proportionately, eliminating half of those positions would have been an unambiguously positive step.

Unfortunately, this has not been the case. From FY 1990 through FY 1999, the number of procurement actions per year increased about 12 percent, from 13.2 million to 14.8 million. The greatest amount of work for acquisition personnel occurs on contracting actions over \$100,000 and the annual number of those actions increased about 28 percent from FY 1990 to FY 1999, from 97,948 to 125,692.

We surveyed 14 of the 21 major acquisition organizations and found this growing imbalance between resources and workload to be a major concern. Acquisition personnel advised us that the adverse consequences included:

- skill imbalances (9 organizations),
- inability to manage requirements efficiently (9 organizations),
- increased program costs resulting from contracting for technical support versus using in-house technical support (7 organizations),
- difficulty retaining personnel (6 organizations),
- reduced thoroughness and timeliness in reviewing acquisition actions (4 organizations),
- increased backlog in closing out completed contracts (3 organizations), and
- lost opportunities to develop cost savings initiatives (2 organizations).

Our report contained examples of mission performance problems related to the reduced workforce. The following are illustrative:

- One command's lack of engineering and quality assurance presence in plants producing military space launch vehicles caused the command to express concern about potential quality problems. The command stated that, when it stopped inspections of all procedures in some plants, so did the contractor.

- A Defense agency stated that complaints about the quality of material received by its DoD customers have increased; however, it has placed less emphasis on responding to customer complaints because of workforce reductions.

- Reduced staffing in a procurement organization caused it to give little attention to reducing backlogs in processing quality deficiency reports and equipment improvement reports.

- Another organization said loss of expertise retarded efforts to develop price analysis in a timely manner, and reduced oversight increased the risk that contracting actions were not properly executed.

- Lack of in-house engineering staff at an acquisition organization caused an increase in customer costs of \$20,000 to \$50,000 per each work year of support services for weapons programs because of the need to hire contractors to perform the work at greater expense.

- Another organization stated it was missing opportunities for savings of \$20 to \$30 million annually because value-engineering workshops were drastically reduced by staffing reductions.

There was widespread agreement that, with additional cuts planned, these staffing problems and performance shortfalls would get worse.

Likewise, there was cause for serious concern in the likelihood of the DoD acquisition workforce losing about 42 percent of its personnel in key job series through attrition by FY 2005. Also, there were overall disconnects between workload forecasts, performance measures, productivity indicators, and plans for workforce sizing and training. It is particularly telling that the only DoD strategic management goal in the late 1990's related to human capital was to cut the acquisition workforce by arbitrary percentages. Congress shared this primary focus on reducing numbers of people, but without insisting on or measuring trends in workload simplification and productivity improvement.

**Report D-2000-100, Contracts for Professional, Administrative and Management Support Services, March 10, 2000**

In March 2000, we reported that every contract action in a sample of 105 items, which involved purchasing 104 million hours of services, had significant deficiencies. Problems included failure to obtain competition when required to do so and lack of government cost estimates. Insufficient training and staffing were root causes of these deficiencies. We found contracts with nobody assigned as the contracting officer, due to vacancies. In many cases, the workload assigned to individuals was unrealistic. For example, one Army civilian was assigned to manage and perform surveillance on 43 contracts, which he did not do because he was also assigned the full-time task of assisting in the award of 13 new contracts. At an Air Force site, one individual was assigned contract surveillance responsibility on 37 contract task orders in addition to his normal duties.

We also concluded that contracting personnel training was too heavily oriented on acquiring equipment and supplies, not services. Because DoD spends more than \$50 billion annually on services, we considered this to be a major concern.

**Report D-2000-086, Assuring Condition and Inventory Accountability of Chemical Protective Suits, February 25, 2000**

We reported in 1997 that the Defense Logistics Agency lost inventory control over about 1.1 million chemical protective suits at a Defense depot. A major cause was that the inventory assurance staff had been reduced by 74 percent. A follow-up audit indicated that the same problem developed at another Defense depot after the suits were transferred there. Again, the failure to properly manage these crucial readiness items was attributed to lack of resources.

**Report D-2000-157, DoD Hazardous Waste Management and Removal Services in the U.S. European Command, June 28, 2000**

Contractors were not performing as specified in contracts for hazardous waste management and removal at 10 of 14 audited installations in Europe. U.S. Contracting Officer Representatives had not been assigned to monitor on-site operations because the organization responsible for such support was undergoing a 28 percent staffing reduction at the same time that workload was increasing.

**Report D-2000-111, Security Clearance Investigative Priorities, April 5, 2000**

The ability of the Defense Security Service to handle its security clearance investigative workload virtually collapsed in 1998. The primary causes were a 42 percent staff reduction and failure of a new automated case control system. In addition, forecasted workload reductions did not materialize because more rigorous Federal security standards were implemented. As a result, there is a backlog of several hundred thousand initial security clearance investigations and periodic reinvestigations. This backlog increases the time required to bring new hires onboard, complicates transfers of employees, keeps contractors from performing, and increases security risks. About one third of the 2.1 million DoD and Defense contractor personnel needing or holding clearances are affected. The audit indicated that future workload projections remained questionable, complicating the formulation of viable corrective action plans and Defense Security Service resource requests. At present, DoD is about one fourth of the way through a planned 24 month effort to eliminate the backlog, but it will be difficult to achieve that goal.

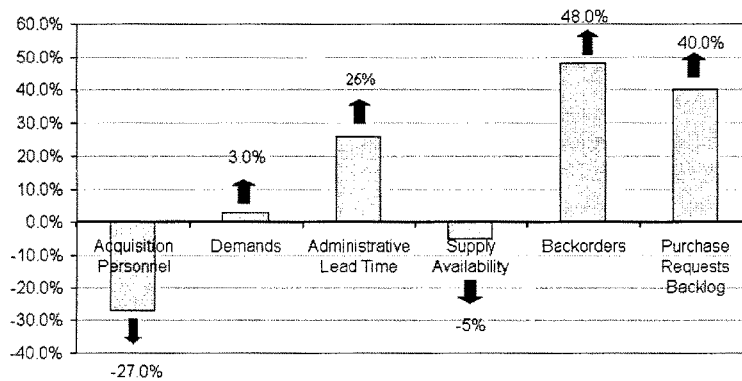
**Report D-2001-008, DoD Adjudication Facility Requests, October 30, 2000**

Another problem in the DoD personnel security clearance area was that the number of personnel security clearance cases requiring adjudication was rising faster than most adjudication facilities' ability to process cases in a timely manner, because workload projections were questionable and related staffing requirements had not been fully identified and budgeted. If not corrected, a second backlog will develop in the adjudication phase of the clearance process, offsetting hard won progress in decreasing the investigative backlog.

**Report No. 2001-076, Acquisition of General and Industrial Items,  
March 13, 2001**

Supply effectiveness at a defense supply center decreased as the administrative lead-time for buyers to acquire parts and supplies rose from 85 to 107 days. Inadequate procurement support was largely responsible for about a 48 percent rise in backorders (137,929 in October 1998 to 203,663 in September 2000) of general and industrial items. Although customer demands (requisitions) increased only slightly for the 2-year period, the purchase requests backlog increased 40 percent at the center over the same time period. The time needed to place contract orders grew by 26 percent and overall supply availability dropped. These supply and acquisition problems occurred because, over a two-year period, the number of acquisition personnel declined from 581 to 378 (27 percent), without offsetting productivity increases or workload reductions.

**Personnel and Workload Changes for General and Industrial Items**



The Department agreed with all of those reports and initiated various corrective actions. For example, the Under Secretary of Defense (Acquisition, Technology and Logistics) acknowledged the need to level off or perhaps slightly increase the acquisition workforce after FY 2002. The Department also worked with Congress to gain expanded authority for pilot personnel programs for the acquisition corps.



I would like to close with some general observations. Significant downsizing was necessary to conform to post-Cold War Defense budget realities, but I believe the Department's performance in providing better information systems to enhance employee productivity and in genuinely streamlining administrative processes has fallen far short of the mark. Those failures to offset the impact of staffing cuts are widely evident. For example, another recent audit indicated that over half of the users of the new Standard Procurement System felt their productivity had not been improved under this \$3.7 billion program. This system was supposed to partially offset the impact of cutting the acquisition workforce in half, but it has failed to do so. In my view, the Department needs to step back and reassess what is actually happening in terms of process changes, productivity improvements and workload trends. Only then can meaningful strategic workforce planning be done. Such planning must apply to all segments of the Department, not just the acquisition corps.

The Department as a whole also lacks a comprehensive strategy in place for dealing with pending mass retirements of experienced managers and workers. Although some organizations, such as the Air Force, are moving aggressively, ways must be found across the DoD and in all disciplines to accelerate the normal "on the job" accumulation of knowledge by individuals and to substitute well crafted training, especially management development training, for experience. In addition, we need more emphasis on retaining the best and brightest middle managers, who will be tomorrow's senior managers, and junior personnel with managerial potential. Otherwise, there will be a general drop off in efficiency and productivity in many organizations toward the middle of this decade. Outsourcing may reduce the scope of the in-house personnel crisis somewhat, but it is not a panacea. Time for action is short.

Again, thank you for considering these views. This concludes my statement.